

in German



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FINANCIAL TIMES

Europe's Business Newspaper

MONDAY MAY 23 1994

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Eurotunnel on track for \$1.27bn rights issue

Eurotunnel, operator of the Channel tunnel, plans to launch its \$550m (£1.27bn) rights issue this week, having received promises from its syndicate of 230 banks that they will provide £700m of senior bank debt. The company's financial advisers, Morgan Grenfell and Warburg in the UK and Banque Indosuez in France, are in the process of finding underwriters for the company's biggest ever share issue.

UK Conservatives split: The UK's ruling Conservative party was trying to mend a renewed split over Europe as the Liberal Democrats, Britain's centre party, pledged a referendum on further moves towards integration. Page 16

New car sales forecast: New car sales worldwide are expected to rise 5.4 per cent this year to 34.9m, after three years of falling demand. Sustained growth in demand during 1994 is expected, rising to record levels throughout the second half of the 1990s. Page 16

Rwandans capture Kigali barracks: Rwandan rebels seized government army barracks in Kigali, removing the biggest obstacle in their drive to capture the capital. Page 6

Ulster loyalists claim Dublin attacks: The loyalist Ulster Volunteer Force claimed responsibility for a gun and bomb attack on a Sinn Féin fund-raising event in Dublin in which one man was killed and a second wounded.

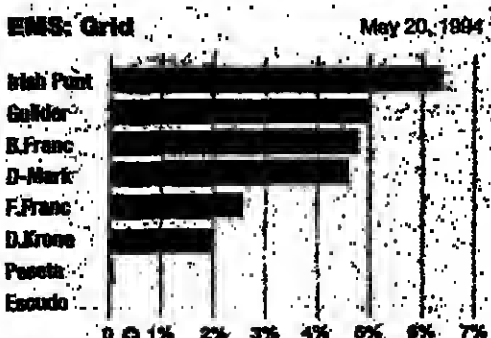
Beidh to lead new Yemeni state: South Yemen's political leaders kept up defiance of northern ruler General Ali Abdullah Saleh by forming a new five-man presidential council, which then elected the southern leader, Ali Salem al-Beidh, president of the new state. In Aden, stronghold of the southern forces, four people were killed and nine seriously injured when a northern missile struck. Page 5; South Yemenis rejoice at move to end union. Page 5

ARM licenses chip to Samsung: Acorn Risc Machines (ARM), the UK company that designed the silicon chip which powers Apple's Newton electronic notepad, said it has licensed its microprocessor technology to Samsung Electronics of South Korea, the world's seventh-largest semiconductor manufacturer. Page 17

Bosch-Siemens seeks acquisition: Bosch-Siemens Hausgeräte, Germany's largest producer of white goods, is seeking acquisitions in the UK, France and Italy to strengthen its position in the fiercely competitive DME45m (£27m) European market. Page 17

Singapore Telecom rises 10.5%: Singapore Telecom (ST), the partly privatised telecommunications and posts company, has announced annual pre-tax profits of \$4.55bn (\$1bn), a 19.5 per cent rise. Page 17

European Monetary System: The order of currencies in the EMS grid remained unchanged last week. The peseta and the escudo remained at the bottom, with all the other currencies appreciating further against them. Currencies. Page 29



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilders which move in a 2.25 per cent band.

Ramaphosa to head constitution body: The African National Congress named Cyril Ramaphosa, the party's secretary-general, as chairman of South Africa's Constituent Assembly to write the country's new constitution.

UN tightens Haiti sanctions: Tougher international economic sanctions went into effect against Haiti after leaders of the military junta failed to leave the country by a United Nations deadline of May 21. But there was little assurance the sanctions would be more effective than their predecessors. Page 6

Israeli troops alerted: Troops in Israel's south Lebanon security zone and along the international border were placed on heightened alert, after Lebanese Muslim militants threatened to avenge the kidnapping by Israel of Mostafa Dirani, leader of the pro-Iranian Faithful Resistance guerrilla movement. Page 5

Malaysia may end UK ban: Mahathir Mohamed, Malaysian prime minister, has hinted that his government might consider lifting its ban on offering government contracts to British companies. Page 4

India brokers brace: Indian stockbrokers are bracing themselves for a difficult week after the collapse of talks on ending a two-month ban on foreign trading. Page 4

Australia opposition leader contests: Months of opposition over John Hewson's leadership of Australia's federal opposition comes to a head today. Page 4

Country	Code	Unit	Value	Country	Code	Unit	Value
Austria	9002	Schilling	13.7603	UK	9001	Pound	1.0000
Belgium	9003	Franc	20.3609	US	9000	Dollar	1.0000
Canada	9004	Dollar	0.7456	West Germany	9005	Mark	1.0000
France	9006	Franc	6.5596	Switzerland	9007	Franc	1.7360
Germany	9005	Mark	1.0000	Spain	9008	Peseta	166.6371
Greece	9009	Drachma	200.4840	Sweden	9010	Krona	1.0000
Italy	9011	Lira	2036.2704	Switzerland	9007	Franc	1.7360
Japan	9012	Yen	100.0000	Taiwan	9013	New Taiwan Dollar	20.0000
Netherlands	9003	Guilder	2.0048	Turkey	9014	Lira	1.0000
Portugal	9015	Escudo	200.4840	Yugoslavia	9016	Dinar	1.0000
Spain	9008	Peseta	166.6371				
Sweden	9010	Krona	1.0000				
Switzerland	9007	Franc	1.7360				
Taiwan	9013	New Taiwan Dollar	20.0000				
Turkey	9014	Lira	1.0000				
Yugoslavia	9016	Dinar	1.0000				

Cycling nymph rides into López legal battle

Christopher Parkes reports on VW's latest manoeuvres in its dispute with GM

In the lengthening drama of the López affair, there have already been many episodes in which things have not always been quite what they seemed. So it was with the cycling nymph, the muscular detective, the silent Swede and the sacked motor industry executive who joined the saga last week.

They made their entrances in a scene carefully stage-managed by Volkswagen, the automotive group whose production chief, Mr José Ignacio López de Arriortúa, is under criminal investigation based on suspicions that he and colleagues stole industrial secrets from their former employer, General Motors.

Adam Opel, GM's German subsidiary, got wind of things to come when it received a list of questions from Stern, the popular weekly magazine, from which it was apparent that Stern, working with the ARD television station, had

learned that Opel lawyers last year set private detectives on the suspects' trail. Spiegel magazine, always well informed on the case, ran a pre-emptive story in its May 16 issue, featuring a girl and her bicycle. Ms X, working for the PSS private detective agency, last summer apparently suffered a puncture outside a Braunschweig house occupied by two of Mr López's lieutenants and fellow suspects, Mr Rosario Piazza and Mr Jorge Alvarez.

The gallant young Piazza helped, driving her back to her hotel. Telephone numbers were exchanged, and there versions of subsequent events diverge sharply.

On May 17, Volkswagen moved. The

suspects' five lawyers issued a statement directed at Ms Dorothea Holland, the state prosecutor in charge of the official case. It listed a series of "indications" calling into question her impartiality and professional standards in relation to the activities of the cyclist and her fellow private eye, Mr Jean-Louis Royet.

The thrust of the claims was that information on the use of private detectives and the information they gathered had been kept - against the rules - from VW's legal representatives. Mr Gerhard Schröder, a member of the VW supervisory board and prime minister of the state of Lower Saxony, which owns 20 per cent of VW, simultaneously broke

months of silence with a suggestion that the official investigation should be closed. Mr Royet, a heavily built martial arts fan and a part-time private detective at PSS (run by his wife, Degmar) had in the interim also proved to be a full-time officer in the Rhineland-Palatinate criminal investigation bureau. The exposed was to cost him his badge.

He made his first full appearance in the ARD broadcast, "The Battle of the Giants", transmitted last Wednesday. He had been photographed at work last summer in Braunschweig. Also featured was an indignant Mr Eberhard Kempf, the lawyer acting for Mr Alvarez, who also (as Opel pointed out) had acted for the journalist who made the programme.

Then there was another new character, Mr Hans Hüskes, recently fired from his post as a senior executive at GM Europe. He, as GM was to reveal in the interim, was being investigated by the Swiss authorities for unspecified alleged professional crimes.

His contribution to the film comprised mainly a declaration of faith in Mr López. He provided a human touch in a programme dominated by journalistic speculation and interspersed with shots of four cardboard boxes which once contained documents and other data allegedly stolen from GM. Found last June, they are now held in a police evidence

Continued on Page 16



Fraternal greeting: Johannes Rau (left), the German Social Democratic party's candidate for the presidency of the country, is welcomed to an SPD meeting in Berlin by his party leader, Rudolf Scharping. Today the electoral assembly meets to choose the successor to the current president, Richard von Weizsäcker.

Treuhand to finance steel mill for two months

By Judy Dempsey in Berlin

Treuhand, the German privatisation agency, will for the next two months finance Eko Stahl, eastern Germany's loss-making steel mill, after the recent decision by Riva, the Italian privately owned steel manufacturers, not to buy the facility.

The steel complex is losing DM150m (\$90m) a year on a turnover of DM1bn.

At the same time, Treuhand is still determined to find a buyer for the mill, in spite of comments expressed by Mr Karel Van Miert, the European Union's competition commissioner, who said last week that the EU's rescue package for steel was dead.

The original EU package, announced last December, envisaged cutting 25m-30m tonnes of crude steel capacity out of a total 170m tonnes.

Among the measures included in the arrangement was backing for a DM150m investment and modernisation plan by the German government for Eko Stahl, which is located in Eisenhüttenstadt, close to the Polish border.

That plan had been contingent on Treuhand's selling the mill to Riva, which in turn would have invested more than DM1bn in transforming Eko Stahl into an integrated steel mill producing 800,000 tonnes of steel a year.

Continued on Page 16

Moscow summit seeks to defuse Crimean tension

By John Lloyd in Moscow and Jim Barshay in Kiev

The prime ministers of Russia and Ukraine held urgent talks in Moscow today in an attempt to relieve mounting tension in Crimea, amid predictions that confrontation between the two Slav states over the fate of the disputed peninsula might lead to bloodshed.

Tension was fuelled on Friday when the Crimean parliament voted to unfreeze a two-year-old decision to adopt a separate constitution - an act viewed by Ukraine as tantamount to a declaration of independence.

A delegation of Crimean deputies led by Mr Sergei Tsekov, the speaker of parliament, will meet leading Ukrainian deputies in Kiev tomorrow.

The rhetoric - if not so far the actions - has been threatening on both sides.

Mr Mykola Mykhailchenko, the domestic-policy adviser to Ukraine's president, Mr Leonid Kravchuk, said at the weekend that "it is time to remind world opinion that Ukraine is a nuclear power".

General Pavel Grachev, the Russian defence minister, said that if Ukrainian troops were sent into Crimea to enforce Ukrainian rule, "conflict is inevitable". Reports of Ukrainian special forces moving into the peninsula have been denied in Kiev - as have Ukrainian reports of a tank and a missile battalion being moved in by the pro-Russian Black Sea Fleet command.

However, security at the Crimean parliament has been stepped up, with armed guards and snipers deployed on the roof.

Mr Tsekov, speaking in the Crimean capital of Simferopol on Saturday, said that a majority in the parliament wanted union with Russia - although other Crimean deputies insist that Friday's decision remains within Ukrainian law.

Tensions have flared between Ukraine and Crimea since Ukraine became an independent state in 1991 with the collapse of the Soviet Union. Although Crimeans, nearly 70 per cent of whom are ethnic Russian, voted for an independent Ukraine in 1991, the country's appalling economic decline has driven the Russian majority to seek integration with Russia.

Mr Yuri Meshkov, the Crimean president, was elected this year by the large Russian majority in the region on a ticket of union with Russia.

The animosity between Simferopol and Kiev has been exacerbated by the growing links between Crimea and the Russian authorities.

Mr Andrei Kozirev, the Russian foreign minister, repeated Russia's desire for a peaceful settlement in a letter to Mr Anatoly Zlenko, his Ukrainian counterpart.

Ukraine seeks recipe for economic survival. Page 3

EC seeks to speed up single market by listing laggards

By Emma Tucker in Brussels

The European Commission is to publish a rogues gallery of member states with the worst records on adopting EU legislation, amid concerns that offending nations are holding up completion of the single market.

A senior single market official said: "We are going to name names, and publish tables that show, in declining order, the performance by the different states in different areas. It is time people realised who has done what they were supposed to do, and who hasn't."

The use of public humiliation tactics to highlight performance in specific areas, such as banking, comes 18 months after barriers to trade and free movement in the EU were supposed to come down. Some senior officials have expressed concern that impetus for the project is slackening.

The move is part of an overall effort by Mr Romano Prodi, D'Archi, internal market commissioner, to maintain momentum behind Europe's grand project. Other measures include the launch of "internal market weeks" in the 12 member states, during which citizens and enterprises will have access to Com-

Official warns: 'We are going to name names'

mission experts via a telephone hotline. It will also provide feedback for the Commission on how the project is working.

Although four-fifths of the necessary legislation has been adopted by member states, the Commission is concerned that in certain areas - particularly banking, other financial services and public procurement - countries have dragged their feet.

The exercise is planned as a follow-up to next month's ministerial meeting on the internal market in Luxembourg. Generally, assessments show that Denmark and the UK have been quickest to adopt Commission legislation on the single market, while Greece and Spain have been the laggards. Italy after a surprise effort in the second half of last year, is somewhere in the middle.

An analysis of individual sectors shows sharply diverging performances. Germany, for example, has still to adopt nine directives on public procurement. Greece and Germany have also

been sent warning letters over their failure to adopt certain banking directives.

"From June onwards we will turn up the spotlight and really try to push people to finish all the unfinished business," the official said. "In the past, people have tried to avoid being bottom of the league. Now we are going to move the debate away from who is top and who is bottom to focusing on what is happening in certain key areas."

Another area of particular concern to single market officials is the high number of complaints about remaining technical barriers to trade. There is also significant grievance over the failure of member states to mutually recognise each other's national product standards.

The official added: "We have a problem with mutual recognition where people are supposed to accept products that have been recognised in one country in another. It is clear that this principle is very foreign to your average local inspector."

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Serb pledge to quit Gorazde zone

By Laura Silber in Belgrade

Bosnian Serb leaders have reiterated their pledge to withdraw from a 3km exclusion zone around Gorazde, the south-eastern Moslem enclave which is a United Nations "safe area", to try to pave the way for an overall ceasefire.

Some 150 Bosnian Serb troops were due to withdraw by yesterday afternoon. The Serbs were up to 1km deep in the UN exclusion zone, set up four weeks ago under threat of further Nato air strikes.

The Moslem-led Bosnian government has refused to return to the negotiating table until Serb forces comply with their pledge.

But even after Mr Yasushi Akashi, the UN special envoy, wrote to Bosnian and Serb leaders proposing renewed truce negotiations, both sides reported fighting along key supply lines in northern and eastern Bosnia.

Tanjung, the Serbian news agency, said that five people were wounded on Saturday night when Bosnian Croat forces bombarded Brcko, at the eastern end of the corridor which joins Belgrade to Serb-held land in Bosnia and Croatia.

Bosnian Croat forces have fought alongside their Moslem counterparts in the northern Sava River valley since the eruption of war 25 months ago

while elsewhere their alliance was restored only in March in an agreement brokered by Washington.

After the agreement, Croat leaders have turned their attention to the status of Serb-held territory in Croatia. President Franjo Tudjman of Croatia at the weekend warned that he would use "all possible means" if Serb leaders of the self-styled state failed to accept Zagreb's authority within four months.

Brcko, which was mostly Moslem before the war, is now held by Serb forces and is viewed as the next possible flashpoint because of its importance to all three communities. Serb forces control about 70 per cent of Bosnian territory, but Moslems have advanced in the region and may try to sever the corridor.

UN officials said Serb forces shelled Tuzla, the second biggest Bosnian government stronghold, shortly after the attack on Brcko.

A Spanish UN soldier and his interpreter were killed yesterday when an armoured personnel carrier crashed near Mostar in southern Bosnia.

Three soldiers were also injured in the accident, as the vehicle went off the road.

Spain has around 1,400 troops serving with the United Nations peacekeeping forces in Bosnia, mostly concentrated around Mostar.



Serbian soldiers taking cover during fighting around the Bosnian town of Brcko

Ukraine looks for economic survival

By John Lloyd

Ukraine's economy is in deep crisis. Production has fallen an estimated 40 per cent compared with last year and both its currency and state revenues have plunged.

Inflation has been screwed down from hyperinflationary levels to around 6 per cent a month and official unemployment is a mere 100,000 people. But this is achieved, economists say, at the cost of idle plants and millions of workers paid - or more often not paid - to do nothing.

The plight of the economy, and possible reforms to drag it out of the mire, were discussed yesterday by international economists at a conference in Kiev organised by the World Bank, the Kiev International Centre for Advanced Studies and the Economic Policy journal.

Among those on the podium were Mr Leszek Balcerowicz, the former deputy prime minister of Poland, Mr Sergei Vasiliev, deputy economics minister of Russia, and Professor Jeffrey Sachs, the highest-profile western adviser to the economies in transition. Mr Balcerowicz, the inspiration behind Polish reforms in 1990

and 1991, told the audience that Poland in 1988 was in a similar position to Ukraine today, with suppressed hyperinflation, a command economy and little private sector. "A radical programme can work," Mr Balcerowicz said, "so long

'The growth of the black economy does demonstrate entrepreneurship, and the ability to adapt and survive of Ukraine's citizens'

as it includes stabilisation of the currency, privatisation and a unified exchange rate" - none of which Ukraine at present has.

Mr Vasiliev, in the rare role for a Russian minister of being seen as the representative of a success story, said that "if Ukraine continues on the road it is now on it has no chance of coming out of its crisis. Experience shows that the more rapidly you go, the faster you get out."

The role of presenting the dominant view in the Ukrainian parliament fell to Ms

Natalia Vitrenko, a member of the presidium of the Socialist party with responsibility for the economy. Her rejection of Polish reforms, espousal of the Chinese model of controlled development and rejection of radical privatisation measures disappointed the panel.

Mr Victor Fyrenyuk, a member of the Ukrainian parliament and a former reformist deputy prime minister with responsibility for the economy, commented: "We in Ukraine have chosen to show the world that we can commit every possible mistake on the road to a market economy."

Mr Daniel Kaufman, the head of the World Bank mission in Kiev, said that the black economy was now growing rapidly - despite increasingly desperate efforts by the government to tighten its grip on the state sector.

"Literally speaking, assets, capital, activities and entrepreneurs have departed from the official economy [but] the emergence and growth of the unofficial economy does demonstrate the entrepreneurship, creativity and ability to adapt and survive of Ukraine's citizens."

"This bodes well for the future," said Mr Kaufman.

Russia firm on Nato treaty

By John Lloyd

General Pavel Grachev, the Russian defence minister, will tomorrow tell Nato leaders in Brussels that Russia insists on a special treaty with Nato, recognising its status as a military superpower, before it will agree to join the Partnership for Peace.

The Partnership, announced in January, is designed to bring former Communist states into an association with Nato - falling short of the full mem-

bership which the central European and Baltic countries have requested and which Russia sees as a threat.

Gen Grachev yesterday told the official Tass newsagency that President Boris Yeltsin, who has approved the defence minister's plan, expects recognition of Russia's special status.

"This can be done either with the aid of a protocol within the bounds of the Partnership programme or by a joint document signed by Nato

and the Russian Federation."

In an interview last week in the weekly Moscow News, Mr Andrei Kozyrev, the Russian foreign minister, laid out the basic conditions for such a protocol. These were, he said, an agreement on common approaches between the two military powers which recognised their "global strengths and responsibilities"; a commitment by Nato to invest in military conversion in Russia; and a commitment to extend joint peacekeeping and joint

political consultations.

Nato leaders maintain that Russia must join the Partnership on the same terms as all other members, but have stressed that Russia's size and military might confer on it a special status. Speaking in the Latvian capital of Riga on Saturday, Mr Luc Bodvard, president of the North Atlantic Assembly, said Nato "would never tolerate" a position where any Partnership member state had veto rights or could dictate rules to Nato.

Loan for Russian banking sector

By Anthony Robinson

The World Bank and the European Bank for Reconstruction and Development (EBRD) will provide the bulk of a \$390m (£260m) loan to build up a core group of 30 to 40 Russian commercial banks capable of acting as a catalyst for wider development of the banking sector.

The aim is to improve the quality of banking services and enable the core group to form the basis of a private clearing bank system. Technical and other assistance will also be provided to help them qualify as "on-lenders" of World Bank and other international credit lines.

The World Bank, whose board approved its 17-year loan for \$200m of the total, said the loan would promote "twinning" with western banks and modernise and standardise management and information systems. But it would also be used to train central bank inspectors and create early warning systems to detect problem banks.

The World Bank also approved a \$175m loan to support private enterprise in Romania, of which \$100m will finance projects to raise the competitiveness of industrial exporters and \$75m for export finance. Loans will be channelled through five selected Romanian banks.

Rutskoi starts crusade to remove Yeltsin

Former Russian Vice-President Alexander Rutskoi launched a crusade at the weekend to remove President Boris Yeltsin and restore a Russian state within the boundaries of the old Soviet Union, Reuter reports from Moscow.

In a speech that marked his return to the political fray, Mr Rutskoi formally proclaimed an end to any compromise with the man who, in his eyes, had sought to humiliate him in the struggle that ended in bloodshed last October.

Mr Rutskoi scored a political triumph in winning re-election as head of a party that appeared in October to have turned against him. Few in its ranks backed him publicly after he led an armed rebellion against Yeltsin in the name of the parliament the president had summarily dissolved.

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Market faces difficult week after collapse of talks to end the forward trading ban

Indian brokers braced as curb stays

By Stefan Wagstyl
in New Delhi

Indian stockbrokers are bracing themselves for a difficult week following the collapse of talks on ending a two-month ban on forward trading. Officials of the Bombay Stock Exchange, the nation's largest, and representatives of the Securities and Exchange Board of India, the market watchdog, last week failed to agree terms for lifting the ban

that Sebi imposed on March 12. The ban contributed to a sharp fall in shares, which were also pushed down by increases in US interest rates and profit-taking following an earlier rally. The Bombay Stock Exchange's index of leading stocks fell from a high in February of more than 4,200 to a low of 3,600 before recovering recently to around 3,800, partly on hopes of a settlement of the forward trading row. Volumes

have also fallen sharply because the forward trading ban has greatly reduced the scope for speculative trading with borrowed funds. Sebi imposed the ban after failing to persuade stockbrokers to adopt transparent rules for the forward market - a long-established and informal market called Badla. Sebi believes Badla is easily abused by brokers for price manipulation at the expense of client investors. It also argues that

Badla gives brokers opportunities for excessively risky leveraged forward trading. The brokers retort that some speculation is essential to provide liquidity to the market. They claim they are ready to propose new rules to ensure greater fairness but these have been rejected by Sebi. While the brokers are angry at the failure of last week's talks, they are likely to try to make fresh proposals to Sebi, because forward trading

is essential to their business. In a speech at the weekend, Mr A N Kolhatkar, the Bombay Stock Exchange executive director, said that discussions were in deadlock but new alternative solutions were likely to emerge in the next few months. Mr S S Nadkarni, the Sebi chairman, has said that he is ready to discuss details of proposed reforms but "there is no going back on the principles which led to the ban".

To make matters worse for the brokers, the growth of foreign portfolio investment, which was soaring in the months to February, has tailed off. Net investments by foreign institutions fell from \$38m in January and \$24m in February to \$16m in March and \$163m in April. The main causes of the decline were the worldwide stock market correction and settlement difficulties in India, though the Badla ban may also have contributed.

Saudis hope to set up oil refineries

By Tony Walker in Beijing

Saudi Arabia will send a delegation to China soon to explore new investment opportunities in oil refining and exploration following last week's visit to Beijing by Mr Hisham Nazer, the Saudi oil minister.

China's official Business Weekly reported that the Saudi mission would visit Lianyungang, a port city in northern Jiangsu province, and Dagang in Tianjin on the Bohai gulf south-east of Beijing to investigate new projects.

The newspaper quoted Mr Nazer, who was on his first visit to China, as saying that Saudi Arabia hopes to establish refineries to meet Chinese domestic needs and to ensure a "stable, long-term supply of crude oil".

The Saudis are proposing to take a 45 per cent stake through Aramco, their state oil company, in a 200,000 b/d refinery to be located near Qingdao in Shandong province, north of Shanghai. Other partners include South Korea's Sangyong and Chinese organisations.

China, which last year produced 143.7m tonnes of oil, has become a net importer in the past 12 months. It is looking to the Gulf states to help overcome a growing shortfall as the Chinese economy continues its rapid growth.

Mr Nazer, who was a guest of China National Petroleum Corporation, reportedly discussed with China's President Jiang Zemin several oil projects in which the Saudis may become involved. Mr Jiang was quoted as saying that he would support Mr Nazer's proposals and "help forge agreements as soon as possible".

The Saudi minister said his country expected to set up joint venture refineries in China, similar to those it has established in the US, South Korea and the Philippines.

BBC feels chill from China

CHINA
By Tony Walker

It would be putting it mildly to describe the present relations between the Chinese government and the British Broadcasting Corporation as ill-starred.

In the nearly half a century since the Communists came to power in 1949, the atmosphere between the world's premier broadcaster and Beijing has hardly been chillier - except perhaps during the bleak days of the Cultural Revolution of the 1960s and 1970s.

But in that era most international media organisations were regarded with suspicion, if not downright hostility, as purveyors of capitalist propaganda.

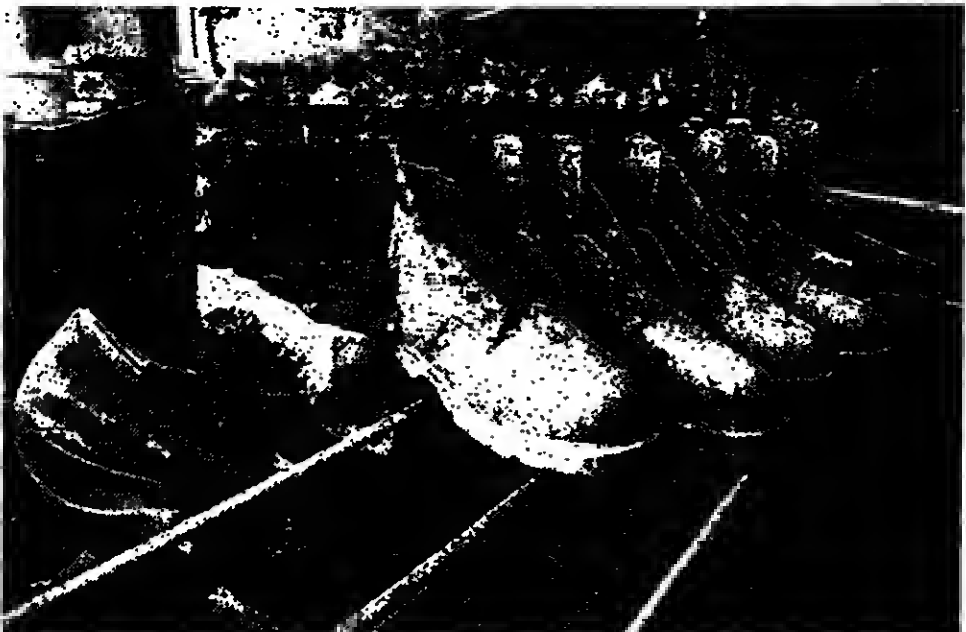
In this latest phase, however, the BBC finds itself the object of particular displeasure for transgressions, real or imagined, against China's interests. The fact that these tensions also coincide with the continuing row between Beijing and London over Hong Kong is not helping matters.

In the latest incident, China expressed outrage over a television documentary which its makers said showed hitherto unrecorded footage of the Chinese gulag, or prison camps, in China's far-west.

And, perhaps more irritating from the Chinese standpoint in the days leading up to President Clinton's decision on whether to continue China's privileged trade access to the US market, the BBC also reported that prison labour was being used to make goods for export.

The US administration has laid down as one of its conditions for renewal of China's Most Favoured Nation trading status an end to the export to the US of items manufactured by prisoners.

A Chinese Foreign Ministry spokesman, quoted by the official Xinhua news agency, described the BBC reports as "sheer fabrication" and suggested darkly that "hostile



The Chinese are sensitive to criticism as the future of many companies such as this shoe factory depend on a US decision on Most Favoured Nation trading status on June 3

people with sinister motives have gone out of their way to smear China with fabricated stories".

That rebuttal, which was not reported by local media was supported by an unusually detailed statement from the Justice Ministry indicating more than normal official sensitivity over the BBC report.

Whatever additional fallout may result from this most recent skirmishing, it cannot improve an already fractious relationship which has resulted in China-based BBC reporters being subjected to restrictions on their freedom of movement and access to officials. Visas are also being denied to BBC programmers seeking entry to China.

It is not the least of ironies that at a moment when China is proclaiming its opening to the world, BBC reporters are finding to the contrary that doors are being closed.

The BBC's relations with China reached a nadir last December when Beijing reacted furiously - some might say over-reacted - to the BBC's

screening of a documentary on the 100th anniversary of the birth of the late Chairman Mao Zedong entitled: *Chairman Mao: The Last Emperor*.

Beijing unsuccessfully sought to have the film withheld and then protested to Britain for what it described as the "BBC's vicious TV programme". China was infuriated apparently by suggestions that Mao had unfavourably late in life enjoyed the company of teenage concubines, and sometimes more than one at a time.

The programme also depicted the late Chinese leader as something of a tyrant who had been the cause either directly or indirectly of the deaths of millions in the mass campaigns that accompanied his ideological rule.

Chinese sensitivity over the BBC's output has been heightened by vast improvements in the broadcaster's signal to China and by the advent of satellite television. China, which exerted pressure on Mr Rupert Murdoch, the Australian newspaper publisher, to drop BBC news broadcasts from his Star

satellite television network may have been emboldened in its criticism of the BBC by his decision to do so (Mr Murdoch insists the BBC was banned to make way for Chinese language programmes more relevant to Star's target audience). But World Service Radio in

both Chinese and English is widely received in China, especially since a new transmitter was installed in Hong Kong in 1987 and other transmitters are operating from near China's borders in the former Soviet Union.

Chinese concerns and misperceptions about the BBC, willful or otherwise, were exemplified by a commentary in the official *Yangcheng Wambao* (Evening News) published last year in which the paper lambasted the broadcaster's intentions over plans to increase its transmissions to China.

"The BBC's main purpose in strengthening its broadcasting to China is to speed up its all-round invasion against socialist countries both spiritually and ideologically," the commentator said, adding: "When we listen to the free-of-charge information others provide, we should be able to tell the truth from falsehood, the beautiful from the ugly. And furthermore, we shouldn't let counterfeits and low-grade foreign goods burst into our world."

Such sentiments may be out of step with China's modernising image, but the fact that they are fairly widely held, including, it appears, among those responsible for foreign media, does not augur well for an early end to the Sino-BBC chill.

Beijing to step up action on unrest

The Chinese Communist party said yesterday it would step up its campaign against unrest in the countryside, where stability is deteriorating due to "paralysis" among local officials, Renter reports from Beijing.

"The security management situation remains extremely grim nationwide this year," Mr Ren Jianxin, a senior party official, was quoted by the official *People's Daily* as telling a meeting on rural instability.

The meeting of the party's Committee for Comprehensive Management of Social Security, which Mr Ren heads, reflected Beijing's concern over an alarming loss of political control in the countryside.

"All official and legal organs must strengthen the force of their blows against the forces of chaos, serious criminal activities and serious economic crimes," said Mr Ren, who is also supreme court president and member of the party secretariat.

The rise in unrest is evident from mounting reports in the party-controlled press of rural warlordism, banditry, deadly clan feuds, violent uprisings and festering resentment.

Angry farmers have demonstrated against crippling, illegal local taxes and have attacked corrupt officials who enrich themselves by running their villages as personal fiefdoms.

Peasants also resent high inflation and a growing income gap caused by the slow growth of farm earnings compared to the rapidly rising incomes in China's cities and coastal areas.

Mr Ren made clear that Beijing would do anything to prevent the Communist party's worst nightmare: a collapse of order among 900m peasants that would plunge China into a chaos far broader than the student-led protests of 1989.

"The security problems are escalating enormously in some rural areas and the public reaction is intense," Mr Ren said.

"We must never underestimate the effect of rural unrest on our national situation and must understand these problems in terms of the overriding interests of the party and state."

Showdown vote for Australian opposition chief

By Nikki Tait in Sydney

Months of speculation over the leadership of Australia's federal opposition will come to a head in Canberra today, where Mr John Hewson, the incumbent, has said he will throw the matter open to a vote.

Just over a year ago under Mr Hewson, the Liberal party lost a supposedly "unlosable" election to Mr Paul Keating's Labor party. He regained some ground last summer, when the Labor government's budget was stalled in parliament for several months, but since then has seen his ranking in the opinion polls fall sharply.

By contrast, the Keating government has pushed through a number of policy initiatives including an aboriginal land title bill and a white paper on employment and industry, and

its standing with the electorate has risen. Its latest budget proposals, announced earlier this month, contained a minimum of new measures and thus run little risk of a repetition of last summer's upheavals.

Pressure on Mr Hewson has increased over the past 10 days as a field of alternative leadership candidates has narrowed. Mr Alexander Downer, the opposition's spokesman on economic and treasury matters, and Mr Peter Costello, a young lawyer MP, are heading the challenge.

Announcing his decision to hold a vote, Mr Hewson said he believed speculation had gained such a momentum that it needed to be resolved as soon as possible. He believed his chances of retaining his position were good: "I think I will win quite well."

Manila defends East Timor conference ban

By José Gelang in Manila

The Philippine government went on the defensive at the weekend after banning foreign participants from a conference on East Timor, apparently under pressure from Indonesia.

President Fidel Ramos said the move was "for the protection of national interests". The Manila conference, scheduled for May 31-June 4, was conceived to discuss alleged repression in East Timor, which Indonesia annexed in 1976 after an earlier military invasion.

Among those who had been expected to attend were Mr José Ramos Horta, East Timor foreign minister in exile and a leader of Timorese independence movement, and Mr George Aditjondro, author of a

book that detailed a massacre of East Timorese in 1991 by Indonesian soldiers.

Mr Horta is currently identified with the anti-Indonesia Fretilin guerrilla group in Portugal.

The Philippine government said Mr Horta had sought that the conference try to make East Timor an Asian issue, to focus a global spotlight on the plight of the people and to foster dialogue among human rights advocates in the region.

Some members of the Philippine Congress had expressed apprehension that the conference, if allowed as a precedent, could make Manila "a new base for subversive groups".

Manila's move followed a threat of retaliation by Jakarta should the conference proceed with government permission.

Malaysia hints at end to UK ban

By Kieren Cooke
in Kuala Lumpur

Dr Mahathir Mohamad, the Malaysian prime minister, has hinted that his government might consider lifting its ban on offering government contracts to British companies.

The ban, imposed in late February, was imposed in retaliation for a report in London's Sunday Times newspaper alleging that a British company had been involved in negotiations to offer Dr Mahathir bribes in exchange for a contract.

Dr Mahathir said that now that Mr Andrew Neil, the Sunday Times editor, had been

transferred to a new post, British media reports on Malaysia might improve. "If we find that the British media reports the truth and no longer prints lies, there is no reason why we cannot resume business," Dr Mahathir told Malaysia's national news agency Bernama.

Mr Neil, who is taking up a temporary post in New York, told Reuters that he was delighted if his move was to be used as an excuse by Dr Mahathir to end what he described as the "abundant embargo" against British companies.

Mr Richard Needham, UK trade minister, is due to visit Malaysia next month.

Indonesian trial sounds alarms

Manuela Saragosa on a bank case's political overtones

When Mr Eddy Tansil, an Indonesian entrepreneur, went on trial last week on charges of corruption, alarm bells rang throughout the country's close-knit establishment.

The trial, one of the biggest alleged corruption scandals since Indonesia's independence, could affect the reputation of many high-ranking government officials. It could also signal the beginning of tighter supervision of Indonesia's state-owned banks.

Mr Tansil, owner of Golden Key, a retail and manufacturing group, received a \$490m loan in 1993 from Bank Pembangunan Indonesia (Bapindo), the government's development bank, supposedly to finance a petrochemical project in West Java.

The prosecution alleges that the loan was never serviced and that the funds were partly diverted to Hong Kong. Bapindo, though it continues to do business, is now technically bankrupt and is expected to be reorganised by the government.

It had been an open secret that Indonesian state banks were riddled with bad debts brought about by collusion between lenders and politically well-connected borrowers. According to the government, 21.2 per cent of their loans were bad or doubtful at the end of last year, compared with 17.4 per cent a year before and only 6 per cent in 1990.

These figures, however, came from the state banks themselves and the situation could be a lot worse, bankers say. "We might well see similar cases being unearthed in the near future," said a Jakarta-based banker.

The case has attracted public attention. One disappointed Indonesian wrote in a local daily newspaper: "I hope that the government punishes the criminals and upholds justice."

Both are due to give evidence at Mr Tansil's trial, although they may be allowed merely to have their testimony read out in court. Their participation may help indicate how immune from investigation the state's power brokers are in the Bapindo affair and how serious the government is about putting a halt to illegal collusion between lenders and borrowers.

In the central Javanese town of Bandung, students tussled with police as they demanded that Mr Sudomo and Mr Sumartini stand trial for their role in approving the loan.

Mr Tansil and Mr Sumartini face a maximum penalty of life sentences in jail under anti-corruption laws. The prosecution

says that Mr Tansil obstructed the government's efforts to develop the economy by his abuse of the loan from Bapindo.

Mr Tansil's lawyers have said that their client did not receive demands or warnings from the bank about servicing the loan, and that the alleged deviations from legal banking practices were made with the blessing of Bapindo executives.

"What makes the Bapindo case interesting is not so much that it happened but that it was leaked to the public," said a Jakarta-based diplomat. The case hints at political wrangling taking place among the ruling elite.

Some bankers argue that details of the loan were leaked as part of an attempt to discredit Jakarta's technocrats, of which Mr Sumartini was one. Government technocrats are channelling billions of dollars into developing heavy industry, although some economists say this path of industrialisation offers little comparative advantage.

Mr Mar's Muhammad, finance minister, told the Asian Development Bank's annual meeting in France this month that Indonesian banks faced difficulties and that the government would further strengthen banking regulation. The outcome of the Bapindo case may show the extent of the government's determination to carry out this promise.

Thai MP quits over US drug charges

By William Barnes in Bangkok

An opposition MP of the Chart Thai (Thai nation) party, Mr Thanong Sitprachapong, has resigned from parliament following revelations two weeks ago that he is wanted in the US for his alleged involvement in smuggling 45 tonnes of cannabis over a 10-year period.

Mr Banham Silpa-archa, Chart Thai's ambitious new leader, is trying hard to rehabilitate the image of a party which is the second biggest in parliament with 77 MPs, but is tainted with a reputation for unscrupulous money-politics.

The police further embarrassed the opposition last week by netting a Chart Thai MP in a raid on a gambling den. The move may be part of a campaign by the ruling five-party coalition to regain the parliamentary initiative, which they appeared to lose when a proposal to reform the constitution was recently humiliatedly defeated.

Earlier Mr Prasong Soonthi, the foreign minister, alleged that seven more serving and 10 former MPs are implicated by the US for suspected drug trafficking. Only one was named: a Chart Pattana (national progress) MP, Mr Mongkol Chongsathummanee.



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F I R M E C A N I C A I R I G R O U P

Beidh named South Yemenis rejoice at move to end union to lead new Yemeni state

The four-year merger was seen to have favoured the president's family, reports Robin Allen

By Eric Watkins in Aden

South Yemen's political leaders continued to defy northern ruler General Ali Abdullah Saleh by announcing the formation of a new five-man presidential council yesterday. The council proceeded to elect the southern leader, Mr Ali Salem al-Beidh, president of the new state.

Drawing on a broad spectrum of political persuasions, the new council is an obvious attempt to consolidate southern efforts at separating from the north and at establishing an autonomous state. Gen Saleh, reversing promises not to bomb the south, has meanwhile resumed missile attacks on Aden, stronghold of the southern forces.

With members selected from five of South Yemen's six provinces, the aim of the new presidential council is to achieve cohesion among southern efforts to prevent any separatist movements. But the new council also brings together old political rivals in a show of non-partisan support for the Democratic Republic of Yemen, the new state announced on Saturday by Mr Beidh, leader

of the Yemen Socialist party, other members of the council include the deputy leader of the YSP, Mr Saleh Saleh Mohammed, the head of the Sons of Yemen League, Mr Abdul Rahman Ali al-Jifri, the head of the Federation for the Liberation of South Yemen, Mr Abdul Kawi Makawi, and Mr Suleiman Nasser Masoud, a member of the Ali Nasser Mohammed wing of the YSP.

Western observers noted that members of the new council had all fought against the British occupation of Aden in the 1960s and that several had struggled against one another in the run-up to South Yemen's independence in 1967. The new council is therefore seen as an attempt to transcend long-standing political rivalries in face of the more urgent threat to southern autonomy posed by Gen Saleh.

Vowing on Saturday to capture Aden at any cost, Gen Saleh has meanwhile resumed missile attacks on the city. Four people were killed and nine seriously injured early yesterday when a northern missile struck in the Khormaksar district of Aden. It was the third missile to hit the city in as many days.

After four years playing second fiddle to the united Yemen government of President Ali Abdullah Saleh, the south Yemenis, led by Mr Ali Salem al-Beidh, have now publicly thrown down the gauntlet. On Saturday night they announced their secession from Yemen, and the formation of a five-man presidential council.

In Aden, the south Yemen capital, celebrations went on all night, even though a missile fired by the north landed near Khormaksar airport and fighting continued around the key southern airbase at Al-Anad, 60km north of Aden.

The news brought a predictable vitriolic response from President Saleh, but southern opinion and the army seem to be solidly behind Mr Al-Beidh, his deputy, Mr Saleh Salem Mohamed, and the Yemen Socialist party (YSP) leadership.

The 2.5m-3m people in southern Yemen, including many northerners who have settled in Aden, are united in their intense dislike of a northern regime based on and favouring the president's family and relatives, and the Ahmar clan within the Hashed

tribal confederation to which the president belongs. This oligarchy, they say, has abused its power and diverted the south's oil revenue away from the south's economic development to satisfy the priorities of 10m northerners.

"If a referendum were to be held tomorrow in the eastern and southern governorates [of southern Yemen], there would be a clear majority in favour of south Yemen reverting to its former statehood," the southern leader and head of the YSP, Mr Ali Salem Al-Beidh, told the Dubai daily Gulf News in March.

The divisions between north and south were more than simple ideology or tribal rivalry. In May 1990, when the north and south formally united, their two separate systems of government were profoundly incompatible. The southern one was based on 20 years of hardline Marxist control which emphasised a strong central authority. By contrast, the northern central government has never fully existed beyond Sanaa and two other cities, Hodeida and Taiz. Elsewhere, tribal authority imposes itself on and competes with the central government in Sanaa.

There is widespread resentment in the south at the way the Saleh presidency lined up with Iraq after its invasion of Kuwait in August 1990, without consulting southern members of the government. As a result of Saudi antagonism, up to a million northern Yemenis had to leave Saudi Arabia, dislocating the entire Yemeni economy through the loss of remittances and the unwanted arrival in the south of several thousand northerners seeking work.

The progressive devaluation of the north Yemeni rial - 84 per cent since May 1990 - and the wide difference between the official rate, YR12 to the dollar compared with the free-market rate of YR75, have dragged the southern dinar down with it.

The present cohesion in the south has depended to a large extent on the durability of the oral pact earlier this year between the army and the YSP leadership. According to this agreement, the army high command, most of which comes from Dhala, Radfan, and Yafa, the mountainous areas to the north of Aden, agreed to support the political leadership in secession providing the latter stopped flirting with the idea of secession for the Hadramawt, the eastern oil-producing part of south Yemen.

Most of the top leaders of the YSP come from the Hadramawt. They include Mr Ali Salem Al-Beidh, the erstwhile prime minister, Mr Haider Abu Bakr Al-Attas, the former oil minister, and south Yemen chief-of-staff Saleh Abu Bakr Bin Hussain, as well as the governor of Aden, Mr Saleh Nasser Al-Siyali, who has a Hadrami father and a Yafite mother.

All the signs are that this pact is holding up, thanks partly to the stiff resistance being put up by the army at al-Anad and the reciprocal support it was getting from the YSP leadership.

The south's Marxist period from 1970 to 1990 rarely involved more than the political leadership and its acolytes in the internal security apparatus. The leadership also utilised the system handed to it by the Soviet Union and used it to remain in power. It was more a

personal desire for power than a power based on ideology. The south also has a wide degree of support from south Yemenis overseas, as well as a degree of tacit sympathy from some of its neighbours. In Jeddah, the Bugshan, Binladin, and Bin Mahfouz families, all important figures in Saudi corporate and financial life, come from the Hadramawt.

Saudi Arabia was never entirely happy with a united Yemen on its southern border, partly of which, in the areas around Najran, Gizan, and a large swathe of the coastal Tihama plain, was conquered by the Saudis in the early 1930s - a legacy which has not been forgotten by north Yemenis.

Economic plans on the south's drawing board include the establishment in Aden of a free zone, upgrading Aden's refinery, modernising the port, and exploiting the Hadramawt's oil resources. Aden was reported to have been the preferred terminal in a US-backed scheme for vapourised natural gas to be pumped from north Yemen's gas fields of the Marib, Jawf and others.

If the south is to survive, it will need a sustained period of political and economic stability, and an economy based this time on a free-market rather than a Marxist system. With the north bent on its military destruction, stability seems a long way off, but without it the south will not get the foreign investments it must have.



Northern troops patrol the streets of Sanaa after the first civil war clashes earlier this month

Israeli troops alerted for reprisals Cabinet focuses on house prices

By David Horowitz in Jerusalem

Troops in Israel's south Lebanon security zone and along the international border were placed on heightened alert yesterday, after Lebanese Muslim militants threatened to avenge the kidnapping by Israel of Mustapha Dirani, leader of the pro-iranian "Faithful Resistance" guerrilla movement. Mr Dirani was seized from his home in Lebanon's Bekaa Valley early on Saturday morning, in what Israel's army chief of staff, Lt-Gen Ehud Barak, described as an "impeccably executed" commando operation.

The army's intelligence chief, Maj-Gen Uri Saguy, said Mr Dirani had "already provided some answers to questions we've been asking for a long time".

other military sources said that he was proving "a tough nut to crack" and that his interrogation would continue for several weeks.

The guerrilla leader, whose movement is linked to the pro-iranian Hizbollah group, is alleged by Israel to have taken prisoner an Israeli air force navigator, Ron Arad, who bailed out of his Phantom jet over Lebanon in October 1986. The Israelis claim Mr Dirani held Mr Arad captive for two years, then sold him to a contingent of Iranian Revolutionary Guards for \$300,000 (£200,000).

Israel's Prime Minister, Mr Yitzhak Rabin, said the Dirani kidnap had been planned for months and that he hoped the Shia militia leader would be able to provide information on Mr Arad's whereabouts.

He added that Israel decided on the operation after repeated appeals to Syria, via the US, for details of Mr Arad had failed to produce results.

He said Israel did not intend to use Mr Dirani as a bargaining chip, having learned from experience that trying to arrange such details was futile.

While Hizbollah vowed to "expend the scope of fighting" against Israel in response to the kidnapping, and other Islamic militant sources threatened "spectacular retaliation", Israeli politicians from across the spectrum came out overwhelmingly in support of the operation.

Israel troops killed at least one alleged Islamic militant and captured two others while raiding a house in the West Bank town of Hebron yesterday.

By David Horowitz

Israeli ministers are to hold a second cabinet session tomorrow to debate ways to slow the rise in house prices, having failed to reach any final decisions at a long cabinet meeting yesterday.

With the Gaza-Jericho autonomy deal still in its earliest stages, and a threat of hostilities on the Lebanese border following the weekend's kidnapping by Israel of an Islamic extremist leader, the scheduling of a second cabinet session devoted to house prices reflects the extent of government concern.

Government figures indicate that apartment prices have risen by some 60 per cent in dollar terms over the past four years alone. Real estate rises are the key

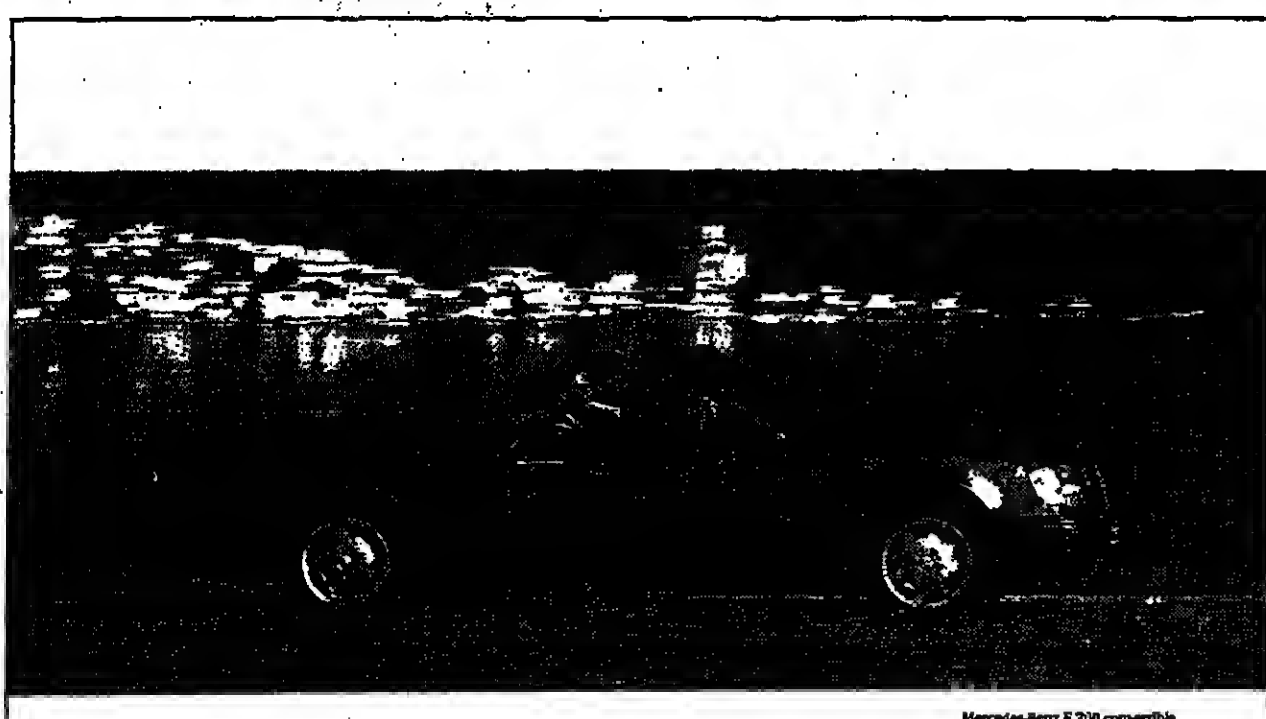
factor in the monthly consumer price index - housing accounted for 0.8 points of the 2.1 per cent rise in the index for April - and the continued rises so far this year have already in effect killed hopes that Israel might keep inflation to single figures in 1994.

Flats in Tel Aviv and Jerusalem, where demand is highest, are selling for an average of \$3,500 (\$2,300) a square metre.

What most concerns Prime Minister Yitzhak Rabin's Labour government is the growing anger among both new immigrants and young Israeli families that they can no longer reach even the first rung on the housing ladder. Mr Rabin fears economic discontent, centred on housing costs, could rebound against him at the next elections in two years.

Unimpressed by the efforts of his minister of construction, Mr Benjamin Ben-El-Mechaie, to speed the procedures for freeing state land for building, he recently appointed an inter-ministerial committee, headed by his own bureau director-general, Mr Shimon Shetrit, to devise new proposals to slow the price rises.

The cabinet heard the first of these proposals yesterday, including plans for government building projects, for schemes to guarantee government purchase of apartments that contractors prove unable to sell privately, and for the allocation of land for 110,000 apartments over the next two years. The Treasury and the Bank of Israel, however, strongly oppose public construction and government guarantees for private contractors.



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NEWS: INTERNATIONAL

UN tightens Haiti sanctions

The US has chartered a Ukrainian cruise ship as a processing centre at sea, but Mr Clinton last week said without Mr John Major, the British prime minister, the possibility of using some uninhabited islands in the Turks and Caicos archipelago, a British possession.

Malawi's new president, Mr. Bakili Muluzi, is due to continue talks on forming a coalition government, with five key parliamentary seats still in dispute, Reuter reports from Harare.

Officials of Mr. Muluzi's United Democratic Front (UDF), which is just short of a majority with 84 seats in the 177-member parliament, said they were awaiting a response from a northern-based party on whether it wanted to join in a coalition government.

"No talks have been opened with Aford (Alliance for Democracy). The position of the UDF is that we have no major problem in working with Aford if they are willing to work with us," UDF publicity chief Kenneth Chibumba said.

Aford, which has 38 seats in the 177-member parliament, is led by veteran trade unionist Chakvetwa Chibumba, who draws support from his home area in northern Malawi. Former President Hastings Banda's Malawi Congress party, the sole legal party from independence in 1964 until the first multi-party election last week, took 52 seats, mainly in central areas.

Rwandans rebels yesterday captured the government army barracks in the capital, Kigali, removing the biggest obstacle in their drive to seize power in the city, reports Mester from Kigali.

Witnesses said the Kanombe barracks, like the nearby airport taken earlier by the Rwanda Patriotic Front (RPF) rebels, fell without serious resistance.

Asked what was now the RPF's target, a senior official said: "The city and then the country."

Hundreds of civilians were streaming out from districts around the barracks to the relative safety of the airport, now firmly in rebel hands.

The RPF military leader, Maj-Gen Paul Kagame, is credited with having single-handedly rebuffed the rebel army into a 14,000-strong force when the late President Juvenal Habyarimana was shot down over Rwanda in 1990 threatening to tear the movement apart.

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Quest starts for Smith's successor

By Kevin Brown and Andrew Adams

Mr Gordon Brown, shadow chancellor, launched his claim to the Labour leadership with an appeal to traditional socialist values yesterday as the shadow cabinet split between the three main candidates.

Mr Tony Blair, shadow home secretary, will launch his candidacy in a speech tomorrow, as an unofficial campaigning accelerates following the burial of Mr John Smith, former leader.

In a surprise development, shadow cabinet support is dividing largely between Mr Blair and Mr Robin Cook, shadow trade and industry secretary, with Mr Brown third.

Mr John Prescott, shadow employment secretary, has no support in the shadow cabinet, although solid backing for his candidacy is emerging among trade union leaders. Mr John Edmonds, leader of the GMB general union, praised Mr Brown and Mr Prescott for their commitment to Labour's policy of full employment.

Mrs Margaret Beckett, acting Labour leader, also appears to

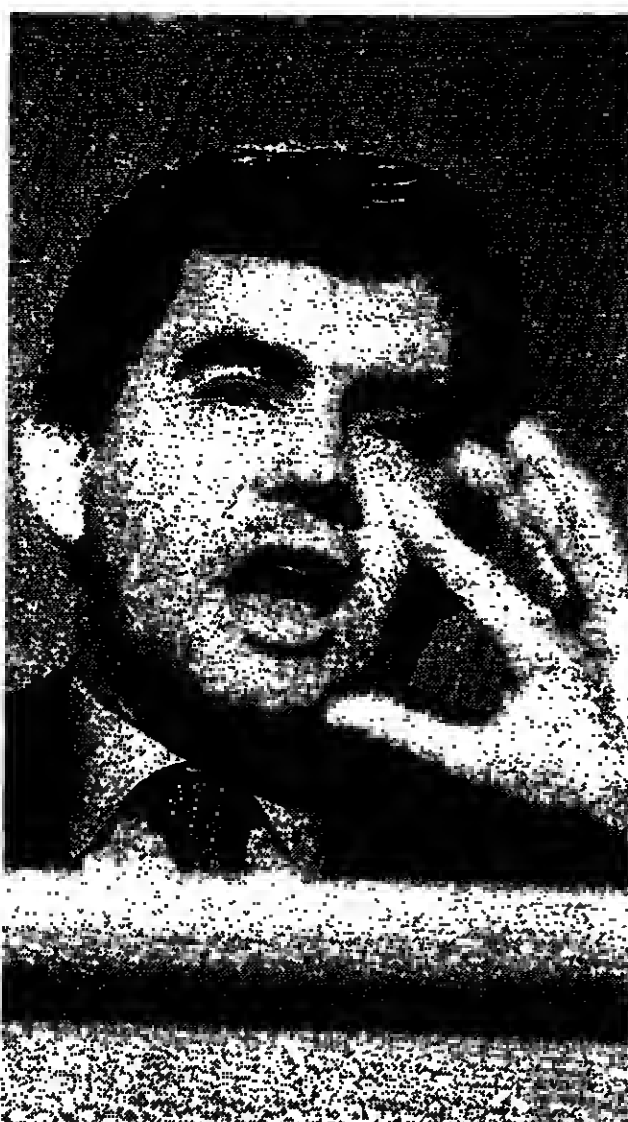
be without support. Mrs Beckett has not decided whether to run, but is expected to continue as deputy leader.

Shadow ministers are refusing to endorse candidates publicly, in line with a shadow cabinet ban on campaigning until after the European parliament elections on June 9.

The level of support for Mr Cook is likely to hamper efforts by Mr Blair's camp to persuade him to withdraw from the race and offer his support to the shadow home secretary. Mr Cook has not decided whether to accept a formal nomination for the leadership.

Labour's ruling national executive committee is expected on Wednesday to accept formal nominations for a four or five-week campaign immediately after the European elections on June 9.

Mr Brown, delivering the keynote speech at Labour's annual Welsh conference in Swansea, sought to shore up his standing on the left of the party with a strong appeal to "enduring" socialist values, and fierce attacks on the City of London, privatisation and means-testing for pensions.



Gordon Brown, one of the three leading candidates in the leadership contest, launching his campaign at Labour's annual Welsh conference in Swansea yesterday

Britain in brief



Low level of coal subsidy attacked

A coal subsidy scheme, which helped the government suppress a backbench revolt over pit closures last year, has provided British Coal with less than £500,000 from a hundred of millions of pounds that ministers indicated were available.

The figures will be used by the Labour Party to support claims that the subsidy scheme was a cosmetic exercise aimed at saving the jobs of miners rather than miners. However, the department of trade and industry said the low subsidy level is the result of the weak market which prompted it to implement pit closures in the first place.

The promise of subsidies was a cornerstone of a government strategy last March in which ministers "reopened" 12 pits from closure while British Coal looked for markets for their coal. Most of the reopened pits have since closed along with others which then looked safe. However, the strategy enabled the government to defeat an opposition motion over its coal policy.

Railtrack sale planned

The government plans to privatise Railtrack, the railway infrastructure company, before the next election, probably by the end of the 1995-96 financial year. Railtrack's price tag of around £3.5bn is significantly lower than its current valuation of £6.5bn. Ministers believe the lower price is more realistic because of its "high public policy risk".

Pledge on mail pricing

The government is to draw-up legally binding contracts to prevent a privatised Royal Mail from introducing regional price differentials. But the possibility of British Telecom introducing regional phone pricing has swollen the ranks of Tory MPs worried that the plan to float 51 per cent of the Royal Mail and Parcelforce could lead to a similar development for mail.

Dam challenge

The government is facing a challenge in the High Court over its funding of the Fergau Dam in Malaysia. The World Development Movement, a lobby group for the Third World, will today launch an application for a judicial review of the decision taken by Mr Douglas Hurd, Foreign Secretary in 1991 to fund the dam. WDM claims that "the purpose for

allocating the funds for the Fergau Dam project was not a purpose permitted by the 1990 Overseas Development and Co-operation Act." The act states aid can only be given if its main purpose is the economic benefit of a country or the welfare of its people. Mr Hurd has defended his decision on the basis of "wider considerations".

MPs hours reviewed

A big reduction in the number of hours that parliament sits could be implemented within months amid signs that the government and opposition are set to make progress in talks on the issue. Concern over MPs' heavy workload was highlighted by the recent death of Mr John Smith, Labour leader.

Child labour allegation

Most of the UK's local education authorities are failing in their duty to police child labour and their regulatory responsibilities should be transferred to environmental health departments, says a report to a conference of the International Association of Labour Inspection in Tunisia. The UK has met with resistance in the European Union to its attempt to secure an opt-out from a European directive controlling the number of hours children can work.

Tax probe into wine and diamond bonuses

By Financial Times Reporter

An angry Mr Peter Lilley, the Social Security Secretary, has ordered an investigation into allegations that some companies are avoiding National Insurance contributions by paying staff bonuses in diamonds or wine and even by way of life insurance schemes.

The move comes only seven months after Mr Kenneth Clarke, chancellor, announced in his Budget measures meant to prevent employers legally avoiding the 10.4 per cent they pay in National Insurance on staff bonuses.

In Mr Clarke's words companies had been "rewarding staff with gold bullion, coffee beans, cowrie shells and other exotic payments in kind".

However, by insisting that National Insurance was to be paid on any bonus paid in the form of "a traded commodity on a recognised exchange", Mr Clarke left a loophole. There are no such exchanges for diamonds or wine.

The Mail on Sunday newspaper drew attention to the issue again yesterday and also pointed to a new avoidance scheme using life insurance in lieu of bonuses.

This involves a company taking out life insurance policies which are then signed over to employees. The company pays premiums into the policies and the employees cash them in after a short time.

National Insurance avoidance schemes are particularly attractive to City companies that pay large annual bonuses. The Mail on Sunday claimed that 70 per cent of the £500m paid in this way by City organisations this year made use of avoidance schemes, thereby costing the government £38.4m.

The department of Social Security said yesterday: "There will be an investigation. Clearly, if there are still loopholes and significant sums of revenue are being lost we will take it very seriously."

Polls may flatter Labour, but a landslide is in the making

The result of the European elections is hard to predict.

The low turnout and the likelihood of tactical voting present special problems to pollsters. There will be relatively few surveys during the campaign. There may not even be any exit polls to tide public curiosity over the gap between the vote on Thursday June 9 and the count three days later when all the other countries have cast their ballot.

Conservative prospects are bleak. Recent nationwide polls are running about 45 per cent Labour to 25 per cent Conservative and 25 per cent Liberal Democrat. The local elections yielded 41 per cent Labour, 27 per cent Conservative, 27 per cent

Conservative prospects in the European elections are bleak, writes David Butler

Liberal Democrat. Recent experience suggests opinion poll figures may flatter Labour.

Nonetheless, there is no doubt that a Labour landslide is in the making. But what will happen in the Conservative seats of the south of England? How far will the Liberal breakthrough go? In one Westminster sweepstakes this week a group of insiders this week ranged from no Conservative losses to a total wipe-out.

Different analyses of the local elections and of two opinion polls taken just before the death of John Smith,

the labour opposition leader, give a clear range for the likely division of the newly-redrawn UK Euro seats. The Conservatives, who won 22 seats in 1989, are forecast to gain a maximum of 20 seats this time and a minimum of eight. Labour, which won 45, is given a maximum of 66 and a minimum of 53, and the Liberal Democrats 8, maximum of 14 and minimum of three.

But these figures take no account of tactical voting. This may operate very differently in the Euro constituencies from the way it operated in the local elections or in response to

the hypothetical questions of the pollsters.

There are almost 20 seats where Labour voters have a far better chance of ousting the Tory MEP if they vote Liberal Democrat than if they stay loyal to their party. The outcome will turn on the success achieved by the Liberal Democrats in educating them to this fact over the next fortnight.

The Tories have leaked one interesting figure from their private polls. 45 per cent of the electorate say they are "certain to vote". In 1989 the same poll said 35 per cent and

proved to be exactly right. But who will the 55 per cent of non-voters be? If they are a representative sample, drawn proportionately from all parties, abstention will not matter. But it will be a very different story if disillusioned Tories go "on strike".

A 45 per cent turnout, although the lowest in Europe, may seem high in a country where only 11 per cent can name their MP, only 27 per cent recognise the name of Jacques Delors and less than 50 per cent claim to know of the European parliament.

Perhaps the most interesting poll

so far was a community-wide one provided by Mori for The European newspaper. Only three of the 12 countries (Belgium, Italy and Greece) showed a significant majority wanting a United States of Europe. Denmark (74 per cent to 11 per cent) and, surprisingly, The Netherlands (73 per cent to 21 per cent) showed an even greater majority against the idea than the United Kingdom (68 per cent to 17 per cent). In no country would a majority vote in a referendum for leaving the Community although, as expected, Denmark (63 per cent in, 35 per cent out) and Britain (63 per cent in, 35 per cent out) emerged as the most sceptical members.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

TODAY
Barrons Int. 2.75p
Direct Int. 2.40p
British Petroleum Syndicate 4.43p
British Telecom 1.10p
Crested 5.84p
Duff 1.00p
E.ON 1.00p
Globe 1.00p
Hutchinson 1.00p
Jaguar 1.00p
Kvaerner 1.00p
Lloyds 1.00p
Mitsubishi 1.00p
Nippon 1.00p
Oxley 1.00p
Petrobras 1.00p
Reckitt 1.00p
Santander 1.00p
Shell 1.00p
Tatneft 1.00p
Vodafone 1.00p
Woolworth 1.00p
Zurich 1.00p

WEDNESDAY MAY 25
Aluminium Co. of America 0.40p
British Petroleum 1.00p
British Telecom 1.10p
Crested 5.84p
Duff 1.00p
E.ON 1.00p
Globe 1.00p
Hutchinson 1.00p
Jaguar 1.00p
Kvaerner 1.00p
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Santander 1.00p
Shell 1.00p
Tatneft 1.00p
Vodafone 1.00p
Woolworth 1.00p
Zurich 1.00p

THURSDAY MAY 26
Aluminium Co. of America 0.40p
British Petroleum 1.00p
British Telecom 1.10p
Crested 5.84p
Duff 1.00p
E.ON 1.00p
Globe 1.00p
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Jaguar 1.00p
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Duff 1.00p
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FRESHFIELDS FINANCIAL TIMES EUROPEAN PRIZE FOR THE BEST BUSINESS LAW STUDENT 1994

The European Prize will be open to citizens of the European Union who are studying business law and are either in the course of, or about to begin, their professional training, or are starting on their professional career.

FIRST PRIZE

The equivalent of 3000 ECU plus 6 months in one of Freshfields' offices

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IF YOU HAVE:

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- Examination results which qualify you to be regarded among the top business law students
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Application forms and rules are available in your university or law school or by calling

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Your application form must arrive by 31 May 1994

UK COMPANIES

TODAY
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Barrons Int. 2.75p
British Petroleum 1.00p
British Telecom 1.10p
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Duff 1.00p
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Vodafone 1.00p
Woolworth 1.00p
Zurich 1.00p

Company meetings are general meetings unless otherwise stated. Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

 Software that's everywhere

HEALTH

Marks gets a measure on stress

Everywhere you look, someone is promising to take your stress away. Consultants and health centres offer hypnotherapy, relaxation tapes or mind baths. In this atmosphere, it is easy for companies to assume that their employees will take care of stress on their own time. But when does stress become so severe that it is a company's responsibility to take notice?

"The scenario when someone disappears from work, or when the men in white coats show up, is an extreme sign that stress has become unbearable," says Paul Litchfield, assistant registrar at the Faculty for Occupational Health in the Royal College of Medicine.

But stress is something that mounts, and some companies believe that the time to act is long before things get bad. Marks and Spencer, the UK retailer, has just piloted a "Managing Pressure" programme, designed to teach employees, from senior management through to the shop floor, how to cope with an "unprecedented" set of pressures from inside and outside the job.

"We thought it would be better to get to people in training programmes while it was still pressure and not stress," says Sally Young, executive for health and welfare at M and S.

Dr Celia Palmer, a former member of M and S's head office occupational health staff, and Steve Williams, an organisational psychologist at Resource Systems in Harrogate, Yorkshire, designed the programme, which was piloted last October among 17 supervisors and sales assistants in one of the company's Midlands stores. Palmer and Williams based the programme on the Occupational Stress Indicator*, a questionnaire that gives individuals a comprehensive picture of their "stress profile". Respondents answer 167 questions on job satisfaction and personality, such as: "Generally and at work, do you usually feel relaxed and at ease or do you tend to feel restless, tense and find it difficult to settle down?"

Resource Systems produces a three-page report on all the sources of an individual's stress. For M and S, Williams and Palmer have developed a "workbook" which would advise employees on how to deal with the pressures identified by the OSI, and a workshop to advise employees on how to cope with the issues raised in the OSI and the workbook. M and S plans to train managers and occupational health advisers to facilitate the programme.

The workbook offers some familiar stress reduction methods: relaxation techniques, physical exercise, hobbies, tapes, yoga. It also suggests strategies for time management, improving relationships with colleagues, and coping with corporate change.

Litchfield warns against companies using such programmes to let them off the hook. "It is very easy to concentrate on how stress affects the individual," he says. "But really you have to go back and see how the company exacerbates stress. Just telling the person on the shop floor to listen to some relaxation tapes is not going to address the source of the problem."

Palmer says, in M and S's programme, workshop facilitators



will find out what employee concerns are and feed the information up to management.

In March, participants in the pilot filled in the OSI again. Williams found that their job satisfaction had improved by about 9 per cent. Now the company has to figure out how to evaluate the programme's effectiveness. Individual progress can be measured by the OSI, but measuring the bottom-line return on investment for the company is more difficult.

To date, the company has spent £40,000 on developing the programme and expects to spend another £100,000 for a full launch.

M and S ultimately hopes to measure changes in sickness absence, staff turnover, accident rates, customer satisfaction, and employee productivity. But Williams says: "There are not any panaceas here. We are not trying to remove all stress or pressure. The programme has limited objectives to help people manage pressure. We know there is a relationship between pressure and productivity so we are hoping that these kinds of things will come out in the measurement figures as we put these programmes into more stores."

*The Occupational Stress Indicator is available from Resource Systems, Clarendon Court, Clarendon Road, Harrogate HG1 4BA TEL: 0423 539529

By Motoko Rich

FINANCE

How to cut that car tax burden

If you are paying more tax than last year because of your company car, there are ways of reducing the burden.

Under the new car tax system introduced in April, employees pay tax on 35 per cent of the manufacturer's list price of the car when new, plus the price of any accessories and value added tax. (Drivers with personalised number plates can now have a sign of relief - the Inland Revenue recently confirmed that these do not qualify as accessories.)

Buying a second-hand car will not help reduce the tax bill because you will still be taxed on its full retail price. However, if your company car is four or more years old at the end of the tax year, the list price will be reduced by one third.

The age of the car is measured from the date it was first registered, so those registered before April 6, 1991 will qualify for the reduction in 1994-95.

The tax burden can also be brought down for those who are able to increase their business mileage. Drivers covering 2,500 - 17,999 business miles will have a reduction of one-third on their assessment, while those covering more than 18,000 will receive a discount of two-thirds.

So, if the car's list price (including VAT, accessories etc) is £18,000, you would be taxed on 35 per cent of this, that is, on £6,300. If you drive more than 18,000 miles, the tax charge would be on £2,100 and if the car is also more than four years old, the taxable amount would fall to £1,400.

Another saving tactic is to drive a van. Maurice Parry Wingfield, tax partner at Toucha Ross chartered accountants, says: "While driving a van will not be to everyone's taste, there are many kinds of 'van' to consider, including four-wheel drive pick-ups, which are often used by people as leisure vehicles."

If none of these ideas work, probably because your car is a perk car with business use of under 2,500 miles, you may be considering opting for a salary increase instead of the car. The problem is of course that you will be taxed at your marginal rate on the increased salary.

However, if you also need a car for your private use, the most tax efficient method might be to take a smaller salary increase, combined with an interest free loan from your employer to buy a car yourself. This is how it might work. If you were buying the car from your employer, you would have to buy it at "market value" to avoid further tax. The loan benefit will not be taxed so long as you only borrow up to £5,000 and you do not have any other outstanding loans from your employer.

Andrew Frapp, tax partner at chartered accountants Wheatill & Sudworth, reminds those running a private car that changing your employer business mileage is attractive. Under the Inland Revenue's Fixed Profit Car Scheme, the employer pays tax-free mileage allowances to employees for business miles they cover with their own car. As long as the amount paid does not exceed the set rates, under the scheme you will not be taxed on the cash received.

By Scheherazade Daneshkhan



STYLE

Wicker world

On the face of it, it's hard to see how the traditional wicker picnic hamper keeps going - being as it is, bulky, apt to spike the legs of the person carrying it, no good at keeping things cold and not especially strong. Yet it's hard to imagine appearing for Glyndebourne, Henley, Royal Ascot or a punt on the Cam with anything other than the inefficient old wicker basket our grandfathers used.

The two most readily available ranges come from Antler (the suitcase people) and Optima, a Sussex-based company. Both can be found in John Lewis, Selfridges and Harrods, and offer an assortment of styles and patterns, from Optima's Tropicana two-person hamper at around £75, to Antler's vast Summer Fruits model for eight, costing £850. In between lie all manner of two, four and six-person designs, including whole willow baskets, split willow baskets, baskets with flat or trunk lids and bakers' baskets. The latter are basically Little Bo Peep hamper, with a large carrying handle on the top and two hinged flaps on either side. Affected, perhaps, but it does mean there's no risk of the lid bursting open and, as one Glyndebourne-goer put it: "Dumping your coronation chicken all over the feet of one of your directors." On the debit side, the cutlery of the Antler range can look utilitarian; likewise the tendency of both manufacturers is to put in tumblers rather than stemmed glasses.

No questioning the robustness of Swaine Adeney's fitted hamper, however. Swaine Adeney, of Piccadilly, does a beautifully made hamper for four persons at £385, or for two persons, at £240. For this, you get French porcelain plates and mugs, good-quality leather fittings, and real exclusivity. Yet even Swaine Adeney has difficulty beating its Piccadilly neighbour, Fortnum & Mason. From The Romantic, for two persons, at £135, to The Pall Mall, at £755, Fortnum & Mason offer an extravagant variety of styles.

Launched at Harrods, Cole-Haas for men have only been in Europe since late last year, although some of the women's shoes have been available earlier. In the US they are worn on every campus, in every office and, the ever-popular deck shoes, in every resort.

Cole Haas for women at Harrods, Liberty, Dickens and Jones, Bruno Magli, Bond Street and Berrills, Kingston. For men at Harrods and Kurt Geiger, Jermyn Street.

By Charles Jennings

Soft shoe shuffle

They sound like lyricist and songwriter or a comedy duo. But in fact Eddie Haas and Trafton Cole were shoemakers from Chicago in the 1920s. Like Kleenex and Hoover, Cole-Haas are almost a generic term to Americans. The penny and the tassel loafer for instance - both very Ivy League, very Scott Fitzgerald - are traditional Cole-Haas in the US. You can almost see Gatsby putting on his scotch grain, moccasin construction, cushioned heel Cole-Haas before choosing from that incredible shirt collection.

Today those handwoven moccasins would cost him £149 and he could have them with or without tassel in many shades of brown and black leather, as well as in suede.

At the company headquarters in Yarmouth, Maine, craftsmen still concentrate on the artisan



touches of the Cole-Haas brand. These include quality of fit, hand-hurishing the leather (which brings out its character), intricate hand-weaving and hand-tooling for Western Boots, British Oxford and what they call classic Bucks.

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Cole Haas for women at Harrods, Liberty, Dickens and Jones, Bruno Magli, Bond Street and Berrills, Kingston. For men at Harrods and Kurt Geiger, Jermyn Street.

By Kathy Phillips, Beauty Director of Tatler

EATING OUT

Echikatsu: a quiet oasis in downtown Tokyo

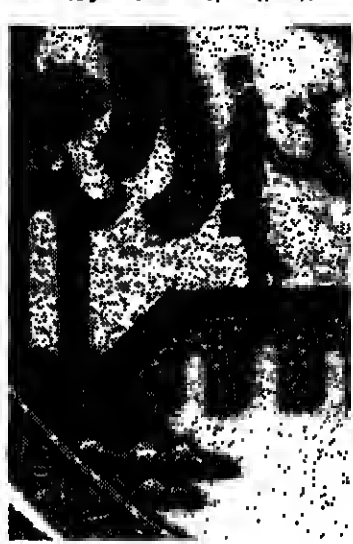
A compensation of doing business in Tokyo is the thrill of discovering the many green oases hidden between the sprawl of office blocks.

One of the nicest of these is Echikatsu, a cottage restaurant endowed with a water garden, in Kanda, downtown Tokyo, only 15 minutes taxi ride (Y960) from the Ottemachi business district.

As you pass Echikatsu's wooden gate and cross its cobbled courtyard, the sound of traffic recedes and peace descends. A kimono-clad waitress ushers you to your private tatami-mat room, thoughtfully adapted for westerners by the addition of a leg pit under the table. Sliding paper doors open on to a gurgling brook stocked with carp, and lined with candle-lit stone lanterns and bamboo. Tokyo seems miles away.

Echikatsu's specialty is shabu-shabu (rough translation: sashimi) or beef teriyaki. They both feature thin-sliced beef and vegetables cooked at the table. Even unadventurous foreigners have been known to like these and Echikatsu will equally please a Japanese guest.

The food is excellent, copious, and healthy. But steer clear of the wine list. As to many Tokyo restaurants, it is limited and expensive. I paid ¥3,500 for a bottle of Pinot d'Or, one of the only two white wines on offer. Stick to sake (rice wine) or beer. In any case, Japanese food was never meant to mix with French wine. Shabu-shabu for two, plus wine, came to just over ¥25,000 (£940).



reasonable for a restaurant of this class.

Echikatsu is suitable for serious business discussion in small groups. It is upmarket, private, quiet and there is lots of room to spread papers around on the tatami floor. The service is unobtrusively attentive. Equally, its charm makes Echikatsu good for romance.

Ask your hotel or secretary to book a room facing the garden and to get Echikatsu to fax you a map. It is well known, but Tokyo taxi drivers are terrible navigators.

Echikatsu is open from 5pm to 9.30pm. Bookings only. No English spoken. It accepts leading credit cards. Phone 3511-5293.

By William Dawkins in Tokyo

Picture research on this page by Tricia Lee and Suzie Kew

SPORT: LAURA THOMPSON



Blessed break for the game

at a time when the team is rebuilding itself it is better, far better, to be cool, to be absent, to hint at what might have been but probably would not have been, to watch poor old Ireland huff and puff against the runny, ice cream-fluidity of the Italians and to be spared the powerful embarrassment of singing a World Cup song.

The season's song was sung, instead, by Manchester United who, in a strange way, became the object of the focus that is normally concentrated upon a national team. Romantics loved them and curmudgeons hated them for their careless, sporadic superiority. They aroused strong, unifying emotions, even in people who supported neither them nor their rivals. Almost every event of the season was viewed in relation to this one team: Aston Villa did not win the Coca Cola Cup, they stopped Manchester United winning it. Blackburn did not nearly win the League, they nearly stopped Manchester United winning it. Respect for the team was often grudging but always great; when they achieved the double with an FA Cup winning performance as cheerless as the sky above it, the complaints were not borne of mere churlishness but of a child-like disappointment that, on

their glory day, the glory boys had played no differently to any other team.

Still, they have had their effect upon English football. The feeling that England deserves to be in the World Cup finals is not unconnected to the sense of pride, of style, of a story worth following, that has been instilled in football by United. For too long the sport has lacked a team like them: a team that transcends the necessary, but limiting, traditional allegiances. That is what the national team should be. Manchester United may have helped them to do it.

Of course, the glamour players of United are the foreigners. Of course much of English football is still symbolised by Arsenal's Cup Winners Cup performance against Parma: a game in which one counted down the minutes instead of living through them, and watched traffic policemen bar the way of Ferraris. But Arsenal still won, didn't they? Manchester United still need the stalwart services of Bruce and Pallister and Ince, don't they?

It is typical of the English that they should blame somebody else for keeping them from the World Cup finals. It is also typical that this aggressive self-aggrandisement should conceal a defensive self-doubt and that, deep down, they should feel that "somebody else" is in fact better than they are. Certainly English bombast about its football exists alongside a cringing obsession with foreign flair. Yet the truth is that English football has qualities of strength and bravery that are just as important as the more exotic, quicksilver skills.

Last season showed a willingness, on the part of enlightened managers, such as Terry Venables and Alex Ferguson, to advance their game by allowing the traditions of grit and flair to draw upon one another for sustenance. This augurs well for next season, though we should remember that greatness was promised four years ago when the English team returned from the World Cup, and that it took less

Main events

TODAY: The French Open begins its two-week run in Paris. Steffi Graf, who has won four straight grand slams and should again sweep through the women's singles. Her path is clear of young challengers. Jennifer Capriati (19) entered drug rehabilitation last week and even though Monica Seles (20) seems to have recovered physically from her stab wounds, she shows little interest in returning to the sport.

SUNDAY: Formula One motor racing resumes its gloomy season with the Spanish Grand Prix at Jarama, after the deaths of Ayrton Senna and Roland Ratzenberger at Imola in Italy and Karl Wendlinger's crash in Monte Carlo. The F1 teams are struggling to modify their complicated cars to meet new safety rules by Sunday. The comparatively low-tech US IndyCar teams have no such worries as they prepare for the main event of their season. A crowd of 400,000 will gather at the Brickyard for the Indianapolis 500, one of America's great traditional sports events.

than a year for the usual misery to start up again. We should remember, too, that the season ended not just with the hopeful images of Manchester United and England, but with Millwall fans overflowing like sewage onto the scene of their defeat.

This is the reality which confronts the fantasy football managers who spent last season constructing a perfect future for their sport. The beautiful game is still, perhaps, a long way away.

LEGAL NOTICES

NO 0025/49 of 1994

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION

IN THE MATTER OF
CHANCELLOR INSURANCE COMPANY LIMITED
and
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that by an Order dated the 29th of April 1994 made in the above matter the Court has directed separate Meetings of the Scheme Creditors (as defined in the Scheme of Arrangements hereinafter mentioned) of the above-named Company (hereinafter called "the Company") to be convened for the purpose of considering and, if thought fit, approving (with or without modification) a Scheme of Arrangements proposed to be made between the Company and its Scheme Creditors, and of considering and, if thought fit, approving the Scheme of Arrangements (as defined in the Scheme of Arrangements) and that such Meetings will be held at The Chancery Insurance Institute, 20 Abchurch Lane, London EC4N 3DF on the 15th day of July 1994 at the respective times mentioned below namely:-

- (1) The Meeting of Scheme Creditors other than Eligible American Policyholders (that including American Policyholders with Scheme Liabilities other than Eligible Claims) at 10.30 a.m., and
 - (2) The Meeting of Eligible American Policyholders at 10.30 a.m. or at some date after the preceding meeting shall have concluded or been adjourned.
- Any person who is or believes that he may be entitled to attend the said Meetings or either of them can obtain copies of the Scheme of Arrangements, the Explanatory Statement required to be furnished pursuant to Section 426 of the above-mentioned Act and Forms of Proxy from the Company at 40 Lime Street, London EC3M 7DS, England (telephone: 071 631 0027) or at Tencher Road PO Box 618, Cobble House, 8-9 Harding Street, London EC4A 3AS (telephone: 071 936 3600) or if outside the United Kingdom at Deloitte & Touche 2000-1055 Dunsmuir Street, 4 Benthall Centre, Vancouver, British Columbia B7R 1Y4 (telephone: 604-669-4666) during usual business hours on any day (other than a Sunday, Saturday or a public holiday) prior to the day appointed for the said Meetings.
- Scheme Creditors may vote in person at such of the said Meetings as they are entitled to attend or they may appoint another person, whether a Scheme Creditor of the Company or not, as their proxy to attend and vote in their stead.
- It is requested that forms appointing proxies to be lodged with the Provisional Liquidators, Chancery Insurance Company Limited, 40 Lime Street, London EC3M 7DS, England and fax on 071 929 3281 not less than 48 hours before the time appointed for the said Meetings and if forms are not to be lodged they may be handed to the Chairman at the Meetings at which they are to be used. A final copy of the form of proxy will be accepted subject to receipt of the original within 14 days after the relevant meeting.
- By the said Order the Court has appointed David Lowthry Morgan as sitting judge Nicholas Rogers Lyle to act as Chairman of each of the said Meetings and has directed the Chairman to report the results thereof to the Court.
- The said Scheme of Arrangements will be subject to the subsequent approval of the High Court of Justice. Dated this 19th day of May 1994.

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Left: England's Darren Anderton goes past Lars Bohinen of Norway as the two countries played out a 0-0 draw at Wembley yesterday. This was Terry Venables' third game in charge of England. Previously he has recorded wins against Denmark and Greece

BUSINESS TRAVEL

A shade greener

Thiel recycling projects have saved Virgin Atlantic Airways more than £500,000 in the past year. The British carrier now plans to extend the scheme. Green-clad flight attendants will tour cabins on some flights, urging passengers to recycle in-flight disposables, such as cups and newspapers. Virgin will donate to local communities and institutions, such as prisons and youth centres, discarded items from on-board hand-outs such as socks and eye-shades.

Indian delays

Travelers in India are likely to suffer delays and cancellations of flights on Indian Airlines, the main domestic carrier, because of industrial action by the airline's flight engineers, writes Stefan Wagstyl in New Delhi.

The engineers, who started their work-to-rule a week ago, are demanding improvements in their pay and conditions on the state-owned airline.

They claim they have taken behind their counterparts working for India's newly-launched private airlines.

Travelers are advised to change their reservations to the private airlines wherever possible.

Little competition

Small central and south American airlines must join forces to compete with US carriers for a share of the high growth in travel from the US to Latin America and the Caribbean, according to Mr Robert Booth, an aviation consultant at the International Airline Chief Executive Officer conference in Florida.

Alliances would help small airlines cut costs, which he said were 25 per cent higher than those of their major competitor, American Airlines.

They had also to "spend some money on promotion and advertising", he said.

Bucharest hotel

Bucharest now has a first-class, western-run, luxury hotel, following the opening this month of the Hotel Sofitel, part of the French chain.

Situated in the city's new World Trade Centre, the four-star hotel has 208 rooms, two restaurants, a gym and, from September, a swimming pool and full fitness centre at neighbouring Lake Herestrau.

Single rooms start at \$175, double rooms at \$190. For reservations and further information, telephone 40-1-212398, fax 40-1-2115688.

Mahjong ban

Taiwan's China Airlines (CAL), under pressure about safety after its worst crash, has banned its pilots from playing mahjong while abroad after they were criticised for living decadent lives, say airline officials. CAL has ordered all flight personnel not to play mahjong while travelling. Hsu Chia-yan, director of the flight operation division, was quoted as saying:

"Taiwan has launched an overall examination of its aviation security after a CAL Airbus A300-600R exploded and disintegrated as it tried to land at Japan's Nagoya Airport on April 26, killing 284 people."

New Tupolev

Vnukovo Airlines, the main Russian domestic carrier, hopes to certify the new Tupolev Tu-204 medium-range airliner by the end of this year, an official said. The airline plans to use the 214-seat twin-jet on internal routes to replace the ageing Tupolev Tu-154 airliner. Three Tu-204s are at present carrying out regular cargo flights inside Russia and abroad. The first flight tests for the passenger version of the jet started in December and no serious problems have been reported, the official said. Some passenger variants of the new aircraft will be fitted with Russian engines and some with power plants made by Rolls-Royce of the UK.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur
Hong Kong	21	22	22	22
Frankfurt	24	20	22	20
L. Angeles	21	23	24	20
Paris	19	21	22	19

Midweek temperatures in Celsius. Information supplied by Meteo Consult of the Netherlands.

I set off recently for eastern Europe with the pugnacious attitude and survival kit - cigarettes, US dollars in small, unmarked bills, and snack food - that would be necessary for travelling in the former Soviet Union. In the old, communist days, eastern Europe was only a slightly kinder, gentler version of the Soviet Union, and in Russia these days travel has, in some respects, become more difficult.

But my painstaking preparations proved unnecessary. The eastern European heartland of Poland, the Czech Republic and Hungary has successfully emerged from the Warsaw Pact, and now have some of the highest rates of economic growth on the continent.

The first pleasant surprise was the new Warsaw airport. It is clean, well-lit and easy to pass through. Most Europeans and US citizens can enter the country without a visa, but even the Greeks, Turks and Canadians who do require visas can purchase them from friendly border guards for \$20.

Visas, like almost everything else in Poland, are sold for zloty, the national currency, which, after its flirtation with hyper-inflation, is on its way to stability. Changing money straightaway at the airport is a better idea than expecting to pay in dollars.

The average fare for the half-hour ride from the airport to the city is about \$15 and Polish cabbies are polite, likely to speak at least rudimentary English, and charge according to the meter. It is worthwhile chatting to your driver, because Warsaw's cityscape - the legacy of Poland's fierce resistance to Nazi Germany - is unfailingly bleak.

The communist-era eyecores, however, do offer one benefit: unlike better-preserved east European cities, Warsaw is relatively free of tourists, making hotel and restaurant reservations easier. The best place to

Visiting many east European cities is a pleasant surprise after Russia, says Chrystia Freeland

No survival kit necessary



Budapest: the city combines Prague's architecture with Warsaw's gritty economic dynamism

stay is the gleaming Marriott Hotel, whose shiny towers in the center of the city are striking evidence of the arrival of capitalism in Poland.

For a more authentically Polish experience, have lunch or supper at the Belvedere Restaurant, perched on the corner of a park - 20 minutes from the centre - where, legend has it, Polish kings used to retire for trysts with their mistresses. From Warsaw, it is an hour's flight to Prague, where the air-

port, border controls and taxi service are likewise hassle-free. The similarities end upon arrival in the city itself. Czech pragmatism preserved Prague from devastation during the second world war, and communism protected it from the excesses of the capitalist development. Prague remains one of the most beautiful cities in Europe.

The Czech capital has become a popular destination for a nomadic tribe of American college graduates, who spend a year soaking up the atmosphere of older civilizations and hanging out, before joining the real world of sniffs and CVs. Czech officials claim Prague was one of the most visited capital in the continent last year.

rooms well in advance, especially if you want to stay at the magnificent art deco Hotel Europa, which is already receiving reservations for July. As a last resort, hotel booking services at the airport can usually be adequate.

I find the four groups, easily identified by the brightly coloured umbrellas held aloft by their guides, and took to the hills in a car rented from one of the half dozen western agencies with offices in the centre of the city. The gently rolling Bohemian countryside, dotted with medieval fortresses, is a Euro Disney fantasy but without the crowds.

Less than 150km south of Prague, on narrow but quiet, well-maintained roads, the walled town of Cesky Krumlov, dominated by a castle on hills overlooking the twisting Vltava river, makes a particularly pretty day trip.

From southern Bohemia, Budapest is a bucolic four-hour drive (most car-rental agencies permit drop-offs in other cities). Travel via Austria: the roads are better and the borders are civilised. Best of all, the contrast, or lack of it, between the Czech, Austrian and Hungarian border towns is heartening evidence of how quickly eastern Europe is catching up with the rest of the continent in terms of living standards.

The Hungarian capital itself combines Prague's architectural charm with Warsaw's gritty economic dynamism. Do not be put off by the airport, which is slightly drabber than those of the other eastern European capitals, or the language, which is impenetrable to travellers with no knowledge of Finnish or Estonian. Just three hours by train from Vienna, Budapest is arguably the most cosmopolitan city in eastern Europe, with fine, comfortable hotels - try the Kempinski on the Pest side of the city - and dozens of lively restaurants and night-clubs.

You don't have to feel in the dark

Richard Tomkins offers tips on finding your way around the confusing New York subway

Riding the New York subway is tantamount to signing a suicide note, right? If you are not shot by a drug-crazed psychopath, you will surely be knifed in the cross-fire between warring urban tribes.

Actually, if that ever was the case, things have changed a bit. A sustained anti-crime campaign that began on the New York subway in 1990 is paying off. The city's transit police say that, of the 1,960 homicides that took place in New York last year, only eight were committed on the subway - from which they draw the slightly wayward conclusion that you are much safer below ground than you are above it.

Whatever the statistics, visitors to New York need have no hesitation in using the subway to get around. Nowadays the system is not only safe, but after years of heavy investment, it has become reasonably reliable. On longer trips up and down Manhattan, it is much faster than a taxi. And at a flat fare of \$1.25 a trip, it is cheap.

On the other hand, it is not one of the world's most user-friendly subways: signposting is poor and the system has several quirks. So, for the novice, here are a few tips.

First, there are no tickets. Instead, you buy metal tokens from booths at the station entrances and use them to operate turnstiles leading to the platforms. There is no dis-



count of any sort for bulk purchases. An electronic prepayment card (the Metrocard) is being phased in, but it does not yet work at all stations.

While at the token booth, be sure to pick up a subway map because they are scarce on platforms and trains. As you will see, most of the lines run on a north-south axis underneath the big avenues, so the system is rarely much use for cross-town journeys.

A big source of confusion to visitors is the way the trains and lines are described. Officially, the trains carry numbers or letters to tell you where they are going (for example, the number 1 train or the N train). But they are also named after the avenues they follow (such as the Lexington Avenue Express or the Broadway Local). And the lines are still widely known by the initials of the companies that built them - hence, the IRT, the BMT and the IND.

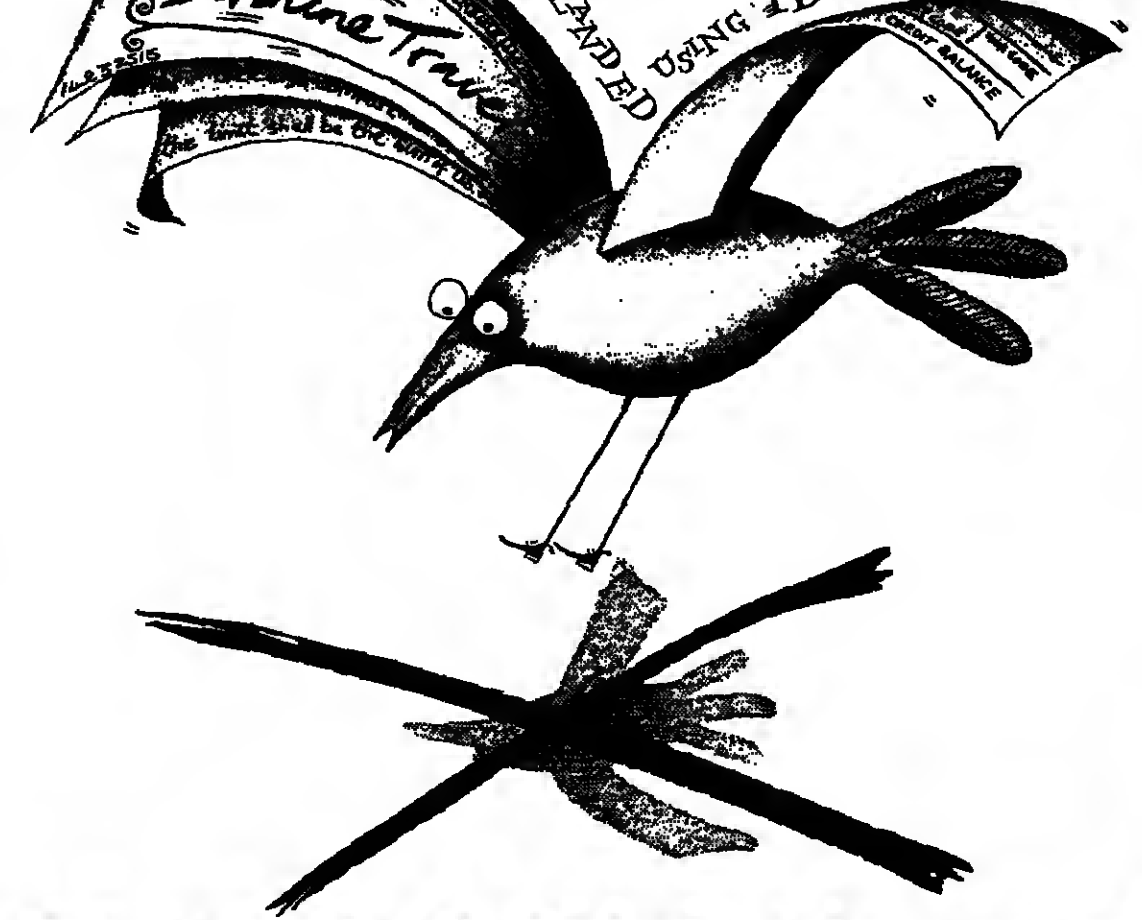
Note that there are two types of train: local, stopping at all stations, and express, stopping only at the main ones. Different trains often share the same tracks, so it is important to check the train's number or letter before you get on. If in doubt, ask: once they are convinced that you are not going to kill them, New Yorkers are extremely friendly.

You should feel perfectly safe on the subway in Manhattan throughout the day and evening, although, as in any big city, it makes sense to keep an eye on your personal belongings. If for any reason you feel apprehensive, you can sit next to the conductor's cabin in the centre of the train.

Finally, one quirk that all reformed engine-drivers should experience is the carriage configuration that enables passengers to stand next to the driver's cab at the front of many trains. Top tip is to do this on the B train to Brooklyn. That way, you can play engine-driver as you go rattling over Manhattan Bridge and enjoy an excellent view of the Manhattan skyline as you come back - assuming, of course, you can elbow the other children out of the way.

Here.

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Orly offers option of convenience

John Ridding explains why UK travellers might want to fly to the newly accessible airport

The ceasefire in the so-called Battle for Orly, brokered last week after negotiations between the British and French governments, means that UK airlines will be able to fly from London to the southern Paris airport by the end of June. For potential passengers the question is: why should they want to do so?

There are several reasons. At the top of the list is convenience for those travelling on to other French destinations. British Airways estimates that about 80 per cent of domestic French airline traffic flies in and out of Orly. The opening of the airport will avoid the need to trek across Paris from Roissy-Charles de Gaulle airport to make a domestic connection.

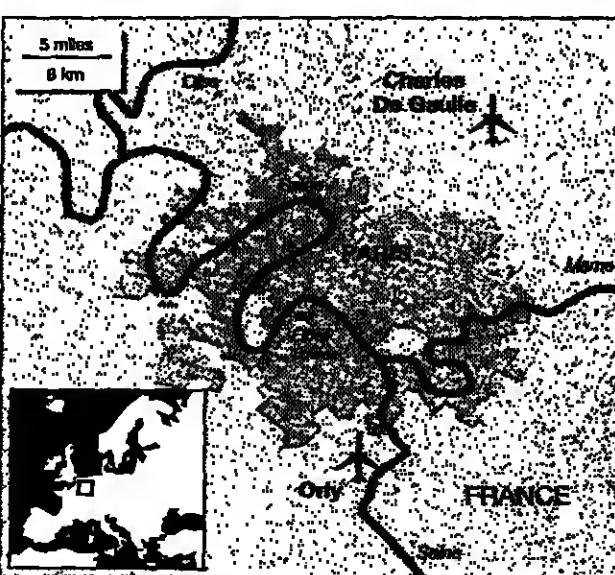
For many travellers, Orly will also represent a more convenient port of access to Paris.

A shuttle from the airport links with the RER, the high-speed underground railway, which whiskes passengers into central Paris.

The total journey takes about 35 minutes from Les Halles or St Michel in the heart of the city, slightly less than the journey from Charles de Gaulle airport. The more southern the destination in Paris, the more attractive Orly is.

To start with, the services will be limited to three carriers: British Airways, its French affiliate TAT European Airlines, and Air UK. BA plans to operate four return flights daily from London Heathrow to Orly, in partnership with TAT.

Air UK is planning to operate six return flights daily between London Stansted and Orly, in place of its five daily flights to Charles de Gaulle airport.



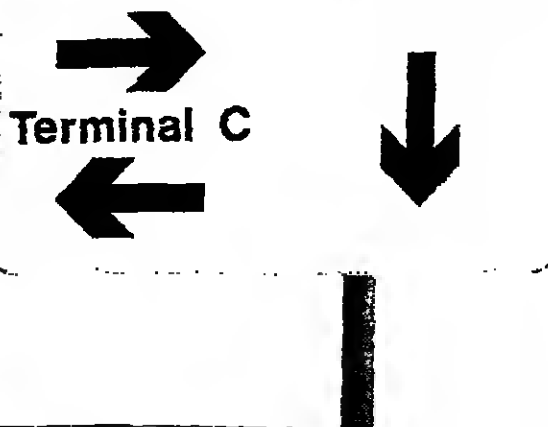
"We believe that Orly will prove more popular than Charles de Gaulle because of its proximity to the practical commercial and residential areas of Paris and because of its better domestic connections," says Mr Andrew Gray, Air UK's managing director.

Other airlines are also planning services. Virgin, British Midland and Lufthansa have expressed interest in operating the London-Orly route, although they have not yet announced any concrete plans.

Despite the potential advantages of Orly, however, there are some caveats for passengers to bear in mind. A one-day strike last week by Air Inter, the French airline that has a monopoly on most domestic routes, caused the cancellation of virtually all of its flights resulting in disruption at Orly airport.

Unions at Air Inter say they plan further industrial action in protest against the liberalisation of the internal French airline market.

Terminal A Terminal B



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Commercial break-up?

Richard Tomkins on advertising prospects in an interactive age

The world's first television advertisement appeared on NBC's WNBT channel in New York on July 1, 1941. It showed a Bulova clock ticking, lasted 20 seconds, and cost \$9. A little more than half a century later, television advertising in the US is a \$30bn-a-year industry, and it is hard to imagine life without the commercial break.

Yet that is the prospect that haunts Ed Artzt, chairman and chief executive of Procter & Gamble, the US consumer products giant. At a gathering of advertising agency leaders in West Virginia this month, Artzt shocked his audience by asking: "What if there is no place for traditional television advertising in the new media age?"

For Artzt, the answer is of more than academic interest. Procter & Gamble is not only the world's largest advertiser, but spends nearly 80 per cent of its \$3bn-a-year advertising budget on television commercials. The loss of such a powerful promotional tool could have unthinkable consequences for the company.

But why the alarm? Can there really be any prospect that television advertising is going to disappear?

If media prophets are right, television is set to change radically over the next few years. Mass broadcasting to a passive audience will be replaced by hundreds of viewer-controlled interactive channels that will give people the information or entertainment they want, on demand. The danger for advertisers is that, even supposing there is a place for commercials in this new era, people will prefer to watch (or interact with) the channels that do not show them.

US advertising agencies argue that this is an oversimplification. Not surprisingly, they like to see interactive television as an opportunity rather than a threat. For example, they say, imagine someone wanting to buy a new car. The viewer of the future might welcome the opportunity to tune into a special channel featuring nothing but car advertisements - particularly if he or she could conduct a dialogue with the



screen, asking for more information about performance or safety features of different models. The same could apply to household appliances, electronic goods, or any other sort of purchase where consumers want to make an informed choice.

Other advertising opportunities would become available on channels specialising in sports and hobbies. Viewers of a golfing channel, for example, just like readers of a golfing magazine - would welcome advertisements telling them what products were available and where they could buy them. Similarly, a fashion channel equivalent of Vogue magazine could be crisscrossed with advertisements for clothing and cosmetics.

This, however, does not answer Artzt's question. Where are advertisements for Procter & Gamble's products going to

appear five years from now? Viewers will not want to tune into a special channel featuring interactive advertisements for Fairy washing-up liquid; nor will they expect their golfing programmes to be interrupted with advertisements for Tide.

According to Barry Linsky, senior vice president for planning and business development at the Interpublic group of advertising agencies, the gloom is overdone. True, he says, there are likely to be a lot of pay-per-view channels without advertising in the interactive future. But there is no evidence to suggest that viewers are prepared to pay significantly more for their entertainment than they do today, so most programming will continue to be supported by advertisements.

Prof Nicholas Negroponte, director of the Media Lab at Massachusetts Institute of

Technology, disagrees. Theoretically, he points out, if manufacturers were no longer paying for television advertising, their products would become proportionally cheaper, so consumers would have more money to spend on home entertainment.

More significantly, Negroponte points to a future where programming is indeed still supported by advertisements - but advertisements aimed directly at the individual. For example, people using their interactive screens to book a salmon-fishing holiday in Scotland might switch on a baseball game the next day to find themselves watching advertisements for outdoor clothing, or fly-fishing equipment in the commercial break.

Over time, interactive television would build up such accurate profiles of individuals from their viewing and buying

habits that every advertisement would be individually tailored to meet their wants and needs. One commercial might suggest you book a table at Lutece for your wedding anniversary tomorrow; another could recommend a Hermès tie to match that shirt you bought last week; a third might remind you that you usually change your car around this time, and suggest you look at the new Lexus.

And so, yet again, Artzt's question comes back: where does that leave Procter & Gamble? Or for that matter, Coca-Cola, or Colgate-Palmolive, or Kellogg, or all those other manufacturers of hard-drum packaged goods that rely so heavily on repetitive advertising to support their brands?

Well, you could always pay people to watch their commercials, says Keith Reinhard, chairman and chief executive of the advertising agency DDB Needham Worldwide. He isn't joking. You could have machines on top of the television set that would reward people for watching advertisements by printing out money-off coupons. Or you could offer people a choice of viewing: watch the movie for \$5 with the commercials or \$3 without them.

"Maybe people will go to the washroom while some of the commercials are playing," says Reinhard. "But we've always had that problem - how to keep viewers engaged."

Another possibility is a return to 1950s-style advertiser-supplied programming, where one company or one brand supports an entire programme. Procter & Gamble has been sponsoring daytime "soaps" - domestic dramas - in the US since the beginning of commercial TV, which explains their name.

Even so, Negroponte maintains that he cannot imagine any context where he would want to see a Tide commercial in the interactive world. If he is right, the consequences could be devastating for sales of everyday branded goods.

Negroponte's advice? "I think if I was Procter & Gamble, I'd be buying billboard space," he says. "A lot of it."

● Sonic boost for Rocket

Rocket Science Games has moved onto the multimedia scene as one of the most promising start-up companies in the growing market for interactive computer games, writes Louise Kehoe.

This week the Silicon Valley company got cash backing from Sega Enterprises, the Japanese video games company, Sega's venture firm CSK Ventures, and Berkeley Music Group (BMG), the German music and entertainment group. Together these have invested \$12m.

Rocket's launch team exemplifies the trend to splice Silicon Valley with Hollywood. The company's game developers are drawn partly from the computer industry and partly from the movie business.

Steven Blank, Rocket president and chief executive, is quick to point out, however, that the much talked about notion of blending talent from these disparate cultures is easier said than done.

"The 'Hollywood type' is potentially the kiss of death for an interactive entertainment developer, if you find the wrong one," he says. "We don't have fancy Hollywood directors or actors. The people we have are out of the special effects business."

Rocket will introduce its first

two games in time for Christmas sales this year. Its games will combine the rich graphics of CD-ROM - the computer cousin of the music CD - with the fast action of cartridge video games, Blank says. Until now, these attributes have been mutually exclusive because CD-ROMs are relatively slow and video game cartridges have limited capacity to store complex graphic images.

Rocket has developed technology it calls "Game Science" that speeds up the performance of CD-ROMs by organising the layout of data on the disk so that the next image required in a game can

be quickly located. Unlike most game developers, Rocket will offer games to run both on personal computers and on Sega CD video game machines. Sales of games that play on video game machines reached \$5.3bn last year, while sales of computer games were only about \$800m, so the dual approach is a necessity, Blank says. Even before it launches its first products, Rocket is winning wide attention. "The best buzz in Silicon Valley at the moment is about Rocket Science," says Lee Legur, a multimedia analyst with Volpe, Welby in San Francisco.

● Drawing across the phone line

Researchers are now pouring cold water on the idea that the principal benefit of videophones - telephones equipped with screens and videocameras - is the ability to see the person at the other end of the line, writes Alan Cane.

Much more important, they say, is the capacity to work together on the same task - a document, say, or a chart. In other words, the ability to share a workspace over the telephone line. Development engineers at Hewlett Packard, the US electronics group, are in the latter stages of developing a product which exploits this finding.

Called the "deskshare", it is essentially an interactive fax machine, enabling two people linked by a telephone line to examine, modify and annotate the same document.

Each has to have their own deskshare. It consists of a flat tablet about the size of a desk ledger; most of the top surface is taken up with a high-definition liquid display screen. Prototypes at HP's Bristol UK research centre have large personal computers hidden under the desk, to drive them, but the aim of the development engineers is to shrink the electronics into the slate itself.

An electronic stylus is provided to write on the screen and the slate is linked to a telephone handset.

Documents, plans, memos and so on can be put into the slate by a variety of means - scanning or transmission from a conventional fax machine or personal computer.

● Question of two-way traffic

Viewers in the UK and the rest of Europe who think they can do better than television game show contestants are about to get the chance to prove it - and win prizes as well, writes Raymond Snoddy.

Interactive Network, a UK-based company set up by Bill Andrews, a former senior executive of the Granada group, plans to launch trials in July of what it calls Two Way Television. Two Way TV plans to make television interactive by piggy-backing on existing programmes such as the Blockbusters quiz show or live sport. A range of Two Way TV games can also be loaded into the set-top box that operates the system. The communication link is not provided by cable or "superhighways" but, like teletext, uses the blank lines in the television picture.

Interactive Network has developed technical concepts licensed from the US and believes it will be offering the first interactive TV of its kind in Europe.

The company has developed a simple push button keypad and mouse to enable viewers to register their answers to the questions in a quiz show. Scores then go up on the screen.

Families can simply play against each other or have their scores sent automatically by freephone to a central computer which picks the winners. There will be top prizes of £1,000 to make the games interesting.

The system will be launched in the UK later this year or early next and there is already considerable interest from other European countries.

Prices have not yet been fixed but the set-top box and four keypads will probably cost between £160-£180. A monthly subscription will cost about £3, with a complete rental package available in the region of £12.

Former chairman of Granada Rental, Andrews says he is very aware how slowly consumers generally take up new technology. This is a first step towards interactive TV. He has already raised £4m for the venture and is in the process of raising a further £10m.

● Sega games go interactive on cable

By Michio Nakamoto in Tokyo and Louise Kehoe in San Francisco

Sega, the Japanese video games maker, is set to launch a cable TV games-on-demand service on a dozen US cable networks later this month and in Japan a few weeks later.

In the US, the "Sega Channel" will be available to almost half of the country's 60m cable TV subscribers. A joint venture between Sega and two of the largest cable companies, TCI and Time Warner, it represents the cable industry's first interactive service.

Sega said the services would begin in Japan in three regions - Tokyo, Nagano, in northern Japan and Mie, in the south. Subscribers to Tokyo Cable Network, LCN in Nagano and Cable Television Yodokai will be able to use the service. In Japan, Sega will charge a monthly fee of ¥3,000 (\$29) which will cover the cost of

renting a special cartridge that plugs into the Sega video game machine, and playing as many of the games available as many times as desired.

In the US, it says the service will be priced in line with "premium" cable TV channel services, which typically cost about \$15 per month. Compared to the cost of new game cartridges, which typically sell for about \$50-\$60, this may be a bargain for video game enthusiasts.



● Faxing daily papers around the world

By Raymond Snoddy

A rather special edition of the Financial Times popped out of fax machines in Australia and New Zealand this week. The first fax edition of the paper is also on its way to Bermuda and South Africa and other places where its international edition still arrives late in the day or after the day of publication.

Wednesday's four-page fax edition - on pink paper - led with news of the latest losses at Lloyd's, the London insurance market, and naturally carried the Lex column. There was also a list of all the companies mentioned in the main edition to encourage readers to buy the full paper. The special edition is free to readers - although providers such as hotel owners pay a fee based on the number of rooms they have.

Distribution by cruise lines and airlines is also being explored.

The modest testing of a faxed FT is the latest sign that, after seven years of trying, Vince Watson, business development director of Faxcast, is getting somewhere in marrying fax technology and the vertical blanking interval in television pictures to create something new.

The data-carrying capacity of the spare lines in the television signal, satellite and cable as well as conventional TV, is enormous and is much cheaper than international telephone lines. Add a special receiver linked to the fax machine and you have a new international publishing tool.

Watson is already running trials on fax editions of the New York Times and is looking at everything from transmitting meteorological information to credit card validation.

He has backing of \$25m from investors ranging from the Bank of Bangkok to Compagnie General des Eaux of France.

ARCHITECTURE

London has its priorities wrong

Colin Amery says emphasis should be put on transport and housing

Democracy has its dangers when it comes to development. We learned two weeks ago that the entire future of the London CrossRail project (a joint British Rail/London Transport plan for a tunnel from Paddington in the west to Liverpool Street in the east) was put in jeopardy, perhaps permanently, by MP's voting against it in an arcane committee.

In this case Parliament has not represented the views of those who live and work in the capital. Michael Cassidy, chairman of the policy and resources committee of the Corporation of London, wrote last week that the views of the City were not sought by the Commons committee. The City sees CrossRail as a key component in plans for continued improvement of the area as a centre of European wealth generation.

More evidence that both government is out of touch over the kind of planning, building and investment that the majority want to see in the capital came in a Gallup poll, commissioned by property consultants Richard Ellis. It disclosed that more than half the world's largest investors believe the

government is not doing enough to support London as a financial centre. About 81 per cent of those interviewed felt "the efficiency of London as a city has been impaired because of the UK government's unwillingness to invest public money in its transport system."

London is more than its transport system. It is its architecture and its town planning and its social ambience. Yet key decisions, taken in mysterious ways, decide major aspects of the city's future. As a guide to the significance of decisions as fundamental as CrossRail, it is worth looking backwards to see how important decisions have been made in the past.

The post-war rebuilding in the city in the 1950s and 1960s was in a similar style to that in bomb damaged German cities - the glass and concrete style of the Bauhaus was the architectural victor of the war. It inflicted equal pain on both sides. The City of London had a second major wave of building in the 1980s with an office boom which bequeathed the

curious post modern style - a kind of decorated Bauhaus with more marble and granite. Barclays Bank's recently completed head office probably represents its apotheosis.

This wave had a partially hidden agenda. The City was bothered by the sudden growth of London Docklands and so in response gave developers almost free rein to build inside the City's boundaries. It was something of a panic reaction, which demonstrated the lack of much needed collaboration between the City and Docklands.

London was already much too big and badly serviced. The Docklands development was largely unnecessary and largely happened because businesses going to the enterprise zone on the Isle of Dogs were tempted large tax breaks.

Docklands is living proof that *laissez-faire* planning does little for a city. If a total London view had been taken of the area's role there was a strong argument for making it a large water and landscaped river park for the East End, sur-

rounded by new houses to replace the tower blocks of Tower Hamlets. Controlled commercial and industrial development should have been balanced with residential, leisure and infrastructure uses.

The devotion of planners, developers and the rating system to the zoning whole areas solely for offices, combined with a refusal to improve transport leads to a grim life in working London. Why is it so rare for people to live where they and others work. In the City or the West End? Why is it so hard to find in London the kind of cultural street life you find in New York or Paris? Why are architects so frustrated? Because they are being asked to design endless offices and very little public architecture or private housing.

Once a city is agreeable and efficient to live in it will attract employment. London has for some time had its priorities wrong. Nobody needed the bankrupt Canary Wharf; no one needs the empty offices in the City; no one (except Peter Palmu) needs the proposed offices at No.1 Poultry. Many of us in London need better public transport and want better housing.

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PEOPLE

Crescendo for Sir George

Lucy Kellaway explains that the opening of Glyndebourne's new opera-house this week is the pinnacle of the chairman's career

On May 28 1934 a special train left London carrying a grumbling group of music critics to a small town in Sussex. They were off to hear the Marriage of Figaro at a new theatre built by a rich English eccentric in the garden of his Elizabethan manor. Their expectation of the music was low, their resentment at wearing dinner jackets and travelling 50 miles was high.

Yet the following day the newspapers carried rave notices, and Glyndebourne has played to full houses ever since.

This Saturday, 60 years later to the day, 1,200 people will dress up and make the same journey with gladder hearts. They too will hear the Marriage of Figaro, performed in a new theatre built on the same site by the founder's son, Sir George Christie.

His is the first important opera-house to be built in Britain this century, and has been paid for without a penny of taxpayers' money. The opening is a business triumph for Sir George. In 1987 when he first floated a plan to knock down the ramshackle old 800-seat building and replace it with an expensive new one, people thought he had lost his mind.

Yet doggedly, and without a hitch, he raised the £33m needed, and witnessed the completion of a splendid new opera house in his back garden on time and on budget.

Eat your heart out, Sir Alastair Morton, chairman of Euro-tunnel. His project was declared open earlier this month a year late, and at twice the initial cost. And that was quick and cheap in comparison

with the British Library, still not ready more than three decades after the initial plans were drawn.

My first glimpse of Sir George is an expanse of scarlet sock seen through a half open door where he is dictating to his secretary. He apologises for running late, and directs me to his study next door. Here among the battered leather-bound books and good furniture, a beige pug dog lies on a blue pouffe.

It is hard to believe that a few yards away from this posterously English domestic scene scores of singers and musicians are engaged in earnest pursuit of artistic excellence.

Likewise it is hard to believe that the genial, gentlemanly Sir George, who presents himself in due course, is the executive chairman of the only opera company in Britain that covers its costs without public assistance. As he closes the door, he sets off the burglar alarm. "Oh damn," he says, and disappears to turn it off.

On returning, he tells me of one evening last year, when he heard a pair of thieves trying to get in through the window. He pursued them, giving chase in his Mercedes. "Their car wasn't all that fast. I was flashing and peeping, but I couldn't get them to turn round so I could get a look at them."

Despite the red socks and the car chase, Sir George is no chip off his father's eccentric block. While John Christie famously had his appendix removed simply to keep his young opera singer wife company as she underwent the same operation, his son appears measured and sensible.

Why did he embark on such an ambitious building plan in

the first place? Sir George refers to his "venal" motives - as if unaware that the Financial Times is sympathetic to this sort of thing. "I wanted to make the theatre bigger to respond to the audience demand, to provide additional box office and to secure our long term future," he says.

"The funding strategy had an element of commercialism," he continues. Strong-arm tactics might have been a better description. The aim was to get most of the money from companies without granting them a larger share of the tickets than the 30 per cent or so they claimed already.

In the nicest possible way, Sir George told the existing 230 corporate members that unless they could each make him a present of up to £90,000 they could no longer be in the club. Some grumbled a little, but in the end only four failed to get their cheque-books out.

That done, he approached the companies on the waiting list for corporate membership. Fed up with what promised to be a 300-year wait (300 were waiting and on average only one member dropped out every three years) some 70 companies came forward, each paying up to £120,000 for the privilege.

I express amazement at the pulling power of Glyndebourne, and he shrugs. Its uniqueness has been a fact of life for him since babyhood. He attributes it to freedom from "the vagaries of government funding", to its season of three short summer months, above all to the high reputation of the performances. Only when pressed does he add Glyndebourne's snob value to the list; "the family's presence unquestionably has an effect."



It is not only special to the audience but to the singers, who readily agree to spend the summer singing at Glyndebourne for a fraction of the rate they might get elsewhere. The successful completion of the new building was partly down to luck; Sir George raised the money in a boom, and built the theatre in a recession. But good timing alone does not explain how seven consultants and 50 subcontractors worked together so well. The secret, he says, was running the project "on a personal level. It has not

been subject to huge committees and sub-committees". Sir George will have been running the company from his home above the shop for over four decades when he reluctantly steps down six years from now. Then he will be 66 and his second son Augustus, who is his chosen heir, will be in his mid-30s. "Gus makes wildlife films, which makes him ideally suited for the job."

Augustus is no worse qualified than his father was when he took over at the age of 23. Sir George had always known he would assume the mantle and was brought up to be passionate about opera. But at the time he was "completely green", and certainly couldn't read a balance sheet. Yet soon he found himself plunged into the rude world of commerce.

Sir George shakes his head at the memory of the more impulsive business ventures, which the sensible son was forced to unwind on his father's death. "He owned a 120-bedroom hotel in north Devon, called the Sultan Sands. It was a disastrous investment."

It would be wrong to present him as merely the business behind the music. Although he has no training in opera - he's an "enthusiastic amateur", he says - he is closely involved in

commissioning the works. The triumvirate - Sir George, the general director, Anthony Whitworth-Jones, and the music director, Andrew Davis - ensure the quality of the performances. In his younger days he used to tour Europe looking for singers, but latterly has given up his talent scouting because he loathes living out of a suitcase. Apart from the singers, who are on freelance contracts, Glyndebourne has a permanent staff of about 50, many of whom have worked there for decades. "I know it sounds silly, but we don't have a motivation problem here," says Mark Beddy, the finance director.

Saturday's opening should mark the pinnacle of his career, yet Sir George is showing no sign of nerves. "I'm so thrilled with the acoustics. I adore the look of the auditorium." Evidently, he feels it will be more than all right on the night. Later, after our interview, I bump into him in the staff canteen. He and his wife are queuing up for their caneloni, chatting and joking with some of the singers.

Being chairman of Glyndebourne must be nice work if you can get it. Or, as Sir George prefers to think of the job: "It is better than being a dentist or a vet."

NAMES

IN THE NEWS

George Trumbull touches down in Australia

The US executive invasion of corporate Australia continues with the appointment of George Trumbull as the next chief executive of Australia's largest investment group, the AMP Society, writes Bruce Jacques.

Trumbull, scheduled to take over in September when Ian Salmon retires, has been recruited from the CIGNA insurance group in the US.

A former American football player, 49-year-old Trumbull has a reputation for toughness and change. He'll need to score some early touchdowns when he arrives at the Sydney headquarters next month.

Trumbull's appointment departs from more than a century of promotion from within AMP. Perhaps his most challenging task will be to modify the creaky internal structures of one of Australia's oldest corporate cultures. But he is not alone. A number of his compatriots, including Robert Jose at Westpac, and Frank Blount at Telecom, face similar tasks.

Early items on Trumbull's agenda are likely to include whether the Society should demutualise in favour of an equity-based structure and whether it should again look to banking after recent disastrous flirtations.

Trumbull has already spent nearly a quarter of a century overhauling large parts of the CIGNA group. An economist with a degree from Dartmouth in 1966, he also obtained a Masters degree in Business Management in 1968 from the Dartmouth School of Business.

Band has hard act to follow at Premier Group

After a long search for a new chairman, the Premier Group, one of South Africa's largest and most successful food and retailing corporations has announced that Doug Band, currently chief executive of media group Argus Holdings, will take over from January 1, writes Mark Suzman.

Band will be replacing current chairman and chief executive Peter Wright, who retires at 60. The new managing director will be Gordon Utten, Premier's longstanding deputy md.

Wright's departure after seven years at the helm will mark something of a break in the South African business scene; he will be a hard act to follow. He is one of the

most widely respected business leaders in the country by both the stockbroking community, which has watched him lead Premier to 63 per cent compound growth over the past four years, and by the African National Congress which has approvingly noted his enlightened approach on hiring black managers and accommodating workers' demands.

By contrast, his successor has, since 1988, been running the Argus group which recently sold its newspaper interests to Independent Newspapers. He will stay on until the restructuring of Argus resulting from the sale is complete while assuming the vice-chair of Premier from July 1. He has a previous association with Premier from when he was chief executive of retail and music group CNA/Gallo, in which both Premier and Argus have interests. "My strength is in retailing and wholesaling. That's what I'll bring to Premier," he says.

Domemann tipped to lead Bertelsmann

As QVC and Viacom hogged the financial headlines with their frenzied bidding for Paramount last year, Bertelsmann, the German media group, was winning frequent mentions as a would-be bidder, writes Michael Lindemann.

The group has made no secret of its desire to take a stake in Hollywood, and with Michael Domemann about to take over as head of the redesigned entertainment division, speculation is rife that Bertelsmann may finally step out of the sidelines.

The sums being paid for Hollywood media properties have never fitted into Bertelsmann's conservative, family-owned philosophy. "They're completely absurd," Domemann was quoted as saying recently, explaining the group's reluctance to join the fight for Hollywood turf.

But while outright purchases have not been ruled out, Domemann prefers the idea of "partnerships or mergers" where Bertelsmann could deploy its music and television expertise.

Domemann, whom sources tip as the successor to Mark Wosner, chief executive since 1981, moved into entertainment when he took over the Bertelsmann Music Group in 1987. Before that, he had masterminded the takeover of Doubleday and RCA, the record label, as chief strategist at the family-based company based in Gütersloh where it was founded in 1835.

The 49-year-old from Frankfurt studied at the Technical University in Berlin before joining IBM in 1970. After seven years in computers, which included time at European headquarters in Paris, Domemann tested the waters at BMW before moving to the Boston Consulting Group to run the Munich office for four years.

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SINGING



ROYAL OPERA HOUSE

Doesn't open on the new theatre on Saturday. The Royal Opera House, which has been closed since the fire, is expected to open in the autumn. The new theatre, designed by Norman Foster, is a masterpiece of modern architecture. It will be a pleasure to see the Royal Opera House in its new setting. The new theatre is a masterpiece of modern architecture. It will be a pleasure to see the Royal Opera House in its new setting.

DAVID BYRNES

David Byrnes, a well-known actor, is set to perform in a new production. He is a talented actor and has been in many successful productions. This new production is expected to be a success. David Byrnes is a well-known actor and has been in many successful productions. This new production is expected to be a success.

CHRISTIAN HOLME

Christian Holme, a well-known actor, is set to perform in a new production. He is a talented actor and has been in many successful productions. This new production is expected to be a success. Christian Holme is a well-known actor and has been in many successful productions. This new production is expected to be a success.

WAR ARTISTS

The Imperial War Museum opens two new displays on Wednesday. The displays are about the war and the artists who created the art. The displays are a masterpiece of modern architecture. It will be a pleasure to see the Imperial War Museum in its new setting.

GOETHE

The Schirn Kunsthalle, Frankfurt, presents Goethe and the Visual Arts. The exhibition is a masterpiece of modern architecture. It will be a pleasure to see the Schirn Kunsthalle in its new setting.

WAR ARTISTS

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Enter a man with a mission

Antony Thornicroft talks to Lord Gowrie, the new chairman of the beleaguered Arts Council

The fifth floor suite at the Arts Council from which Lord Palumbo, as chairman, watched over four years of rising arts subsidy and one unhappy, final, year of straits and stringency, is empty. Gone is his exquisite collection of contemporary art, gone the hothouse flowers. The only decoration now is a photograph of Samuel Beckett propped up against the wall. "Beckett is my hero," says the new chairman, Lord Gowrie.

In a way, the empty room says it all. There is to be a fresh start; nothing can be taken for granted; the organisation's battered reputation, both with government and its arts clients, is going to be restored. Gowrie sees it as his mission to save the Arts Council. "I think ministers would find life impossible without it," he says. As a former arts minister, he should know.

Lord Palumbo, a diffident, reserved man, was disillusioned in his final year of office by the fiasco over funding cuts for London orchestras and by the Treasury's decision to cut the council's grant by £3.2m. Lord Gowrie, 54, is a much tougher individual, more adept at traversing political and artistic minefields. A former chairman of Sotheby's, he is an arts junkie, a published poet, and a former art dealer. After Eton and Oxford (where he acquired his nickname, Grey, when his abundant hair prematurely acquired a silvery tinge) he lectured in the US and advised on art until a Conservative government desperate for young, energetic, supporters to do its business in the House of Lords, wooed him with the job of arts minister in 1983.

He is married to the journalist Adelheid Griffin von der Schulenburg and, though his main home is in Wales, he continues to be a ubiquitous presence at London first nights. He lists book reviewing as his recreation in Who's Who and he is a collector with very much the same modern tastes as Lord Palumbo. This passion for modernism extends to all the arts. He was quick to stand up and applaud at Covent Garden's recent revival of Harrison Birtwistle's opera *Operas*.

In the current art world, few are as much at home as Lord Gowrie. He is a collector with very much the same modern tastes as Lord Palumbo. This passion for modernism extends to all the arts. He was quick to stand up and applaud at Covent Garden's recent revival of Harrison Birtwistle's opera *Operas*.

is a fan of Samuel Beckett, the literary icon of minimalism. Gowrie's immediate objective is to persuade the government to restore the cut in subsidy, now around £5m in real terms. "The base level of subsidy is too low. Just as it is hard for a pensioner to save a fiver so it is for arts companies that are already cut to the bone". To achieve this change of heart he must first restore pride and confidence in an Arts Council badly mauled by internal rows and a recent cost-saving redundancy programme. The new secretary general, Mary Allen, is a Gowrie protégé and is regarded as a step in the right direction: she has the task of cutting back on the bureaucracy which bedevils the lives of council clients.

Gowrie has persuaded heritage secretary Peter Brooke to appoint some real heavyweights to the council: new arrivals Trevor Nunn, Sir Richard Rodgers and Thelma Holt - figures of international stature in the world of theatre, opera and architecture - should help to repair its reputation among the malcontents of the arts world. And it will be the council, as much as the various specialist internal departments, that will decide policy.

"A lot of bets are off," says Gowrie. "I'm not bound to anything. I think the Arts Council is like Andrew Lloyd Webber's musical *Sunset Boulevard*. It was a good show but it needed, and received, modification. The council needs modification." All those who thought that Lord Gowrie would quietly accept the recent upheavals at the council - the internal reorganisation; the devolution of clients to regional arts boards; the stillborn national arts strategy - will be surprised. "Everything is open".

With the council kicked into shape Gowrie can try to persuade the government that the arts are one of the few British success stories of recent years. "The arts are very cost effective, with a tremendous spill over from the public to the commercial. I remember ten years ago going to see two young Irish actors at the Roundhouse in a play about the hunger strikers. One of them was Liam Neeson".

Given the government's short sighted lack of support for a British film industry, Neeson, the star of *Schindler's List*, is now lost to Hollywood, and is not perhaps the best

example of an Arts Council investment yielding a profitable harvest. But Gowrie reaps off some current achievements. Lucian Freud is probably the best artist in the world; Thomas Allen's recent triumph as Don Giovanni at La Scala, Milan; the LSO getting four encores from the hard-boiled Germans in Frankfurt; the success of Diana Rigg as Medea on Broadway and Derry Bussell with the Royal Ballet in Washington. Lord Gowrie believes that the message of British artistic achievement abroad has got through to the government, to the media, and to the public.

There was some surprise that Lord Gowrie, a non-executive director of Sotheby's and bankers Guinness Mahon, was so keen to accept the chairmanship of the Arts Council. To many, considering the London orchestras debacle and the ensuing crisis for the abolition of the council, it seemed a poisoned chalice. And it was, after all, an unpaid post - apart from the perks of car, chauffeur and endless free tickets. Gowrie had notoriously resigned from the Conservative government in 1985 because he could not live in

London on a minister's salary of £38,000. But his desire to become chairman of the Arts Council was not motivated solely by a dispassionate concern for the state of the arts. There was one appealing lollipop: the arrival in the next few months of the National Lottery. The council will distribute the share going to the arts, perhaps £100m a year. "It's a huge pill for the whole arts community. I lobbied for a lottery ten years ago but Lady Thatcher disapproved of gambling". He believes the government assurances, designed only for capital projects in the arts, will not be used as an excuse for cutting revenue funding. He also takes a package over-optimistic view of the ability of arts organisations to raise matching money to qualify for a lottery grant.

But this is one of his hobby horses: his main achievement as arts minister was the Business Sponsorship Incentive Scheme whereby the government topped up money that arts organisations attracted from sponsors by their own efforts. As chairman of the Serpentine Gallery he had little trouble raising matching funding to take advantage of any grants going. But

the Serpentine, avant-garde and with some powerful modern patrons of art as supporters, is hardly a typical British arts institution. Lord Gowrie is firm. "I will shake my fist at the government", but he is also practical. He has courted Mo Mowlam, the shadow heritage secretary. He gets on well with Peter Brooke, who, for no very good reason, has been tipped to lose his job in any reshuffle. Lord Gowrie comments: "The country needs continuity in important jobs. At the Serpentine I had to deal with six different ministers".

But he is talking equally tough to the arts. He has warned companies that they must budget this year within the subsidy-cutting guidelines laid down by the Heritage department. He is not a man for the barricades. He is also frighteningly realistic, a rare quality in the arts where being starry eyed and otherworldly is almost a qualification for a job.

In his first speech as chairman, to a conference organised by the Institute of New International Visual Artists, the council's most expensive new project, a planned exhibition space for multi-cultural art, Lord Gowrie terrified the audience

by pointing out that the council had been generous initially but, in the current climate, he could not guarantee future funding on such a scale. He is also glad-handing less glamorous gatherings, like the association of district councils. He knows that local government spends as much on the arts as the Arts Council.

It is clear that Lord Gowrie is going to throw himself enthusiastically at the arts. He hopes to furnish his new office by charming a Roger Hilton painting from the British Council to add to his modest collection of sculptures by William Turnbull and Julian Sainsbury. He will be turning up at the council five days a week, at least for the first few months. After the self-facing Lord Palumbo, the arts are in for a rude shock. Lord Gowrie is a believer. He also sees himself as a player. He has just come back from the Cannes film festival, where he had a walk on part. This week end he was off to the Hay-on-Wye festival, where he publicly read poetry and interviewed R.S. Thomas. "I'm a participant, too. I may be only a caddy but I will keep on the greens." Barely has a caddy had so much influence on the game.

choreographies by Balanchine, Robbins, Martins and Tanner. Mikhail Baryshnikov will perform Jerome Robbins' *A Suite of Dances* (Bach) on May 27 and 29. Several evenings are devoted to The Diamond Project, featuring new neo-classical ballets by Lisee Dove, Richard Tanner, Robert LaFosse and nine other choreographers (870 5570).

Avery Fisher Hall This week's New York Philharmonic concerts are conducted by the orchestra's chief conductor, Kurt Masur. Tomorrow's programme consists of works by Paulus, Richard Strauss and Brahms. Thurs, Fri, Sat, next Tues: a programme of American concertos, including works by Ives and Ruggles (875 5330).

PARIS OPERA/DANCE This week's performances at the Bastille and Palais Garnier are threatened by strike action, which disrupted last week's premiere of Tosca at the Bastille. Tosca, conducted by Szymon Arltis and staged by Werner Schroeter, is due to run till June 17 with changing casts including Carol Versari/Celine Kallina, Placido Domingo/Vladimir Polozov and Alain Fournier/Sergei Leiferkus. Wednesday's performance is to be transmitted live to a large screen on the Place de la Bastille. André Engel's 1992 staging of *Lady Macbeth of Mtsensk* is revived tomorrow for six performances conducted by Myung-whun Chung, with a cast headed by Mary-Jane Johnson and Jacque Trussel. At

the Palais Garnier, the Opéra Ballet has Rudolf Nureyev's 1992 staging of *La Bayadère* daily from tomorrow till Sat. The production will be revived for a further series of performances at the Bastille at the end of June. To find out whether performances are going ahead as planned, ring 4473 1300 or 4343 9696. The Bastille box office is 4742 5371. The Opéra-Comique - box office 4288 8883 - has Don Pasquale till June 4, with a cast headed by Gabriel Bacquier and Leonilda Vadeva.

CONCERTS Salle Pleyel Wed, Thurs: Claus Peter Flor conducts Orchestre de Paris and Chorus in works by Mozart and Mendelssohn. May 31: Kyrián Zimman piano recital (4561 0630).

Châtelet Fri: Emanuel Ax, Isaac Stern, Jaime Laredo and Yo Yo Ma play piano quartets by Mozart, Fauré and Dvorák. Sun: Daniel Barenboim conducts Chicago Symphony Orchestra in works by Debussy, Elliott Carter and Brahms (4028 2840).

JAZZ/CABARET Memphis blues singer Ann Peebles is in residence this week at Lionel Hampton Jazz Club. Music from 10.30 pm to 2 am (Hotel Meridien Paris Etoile, 81 Boulevard Gouvion St Cyr, tel 4068 3042).

A 24-hour recorded telephone guide to Paris entertainments is available in English by dialling 4952 5356.

Opera ENO turns up the power

This was the most exciting performance seen at the London Coliseum for many a month. It is said the health of an opera company should be judged by the strength of its revivals. If so, English National Opera is in fine fettle, if it can bring back a production three years old with as much bracing immediacy as *Peter Grimes*.

It dates from 1991, the height of "powerhouse" arrogance, when every production wore its naked light-bulb with pride. Tim Albery's production of *Peter Grimes* has the statutory light-bulb, but is surviving proof of the dynamism that lit up the finest work of these years. Even if the brutalism of the sets seems unnecessarily harsh, all that goes on within them is electric, music drama with the power switched up to maximum.

Albery treats the opera as a late example of expressionism (Berg's *Wozzeck*, a great influence on Britten, never seems far away). The people of the borough form the faceless army of society, determined to destroy any individual who does not conform. Peter Grimes is already unloved at the start and the opera is spent watching him teeter on the edge of the cliff, ready to fall into a bottomless ocean of madness.

In the title role, Philip Langridge gives one of the essential operatic portrayals of today. Shame and despair have seeped into every muscle of his body; there are emotions here that Langridge seems to drag up from the pit of Grimes's stomach. Each line of the text is stamped with individuality and he is in good voice. With the conductor David Atherton pushing the music to the brink, the impact is formidable.

So far this is a repeat of the cast from 1991. The newcomers this time include Janice Cairns, who does not find the vocal writing for Ellen Orford congenial, but gives the character a more determined personality than usual. Alan Oyle is sure and steady as the faithful sea-dog Rastrod. Among the many smaller roles there is not one caricature, be it Ann Howard's fearsome Madame or an Auntie, Susan Gordon playing Mrs Sedley as any nosey Grandma or Alan Woodrow's near-hysterical Bob Boles. It is good news that the BBC is filming the production for future broadcast.

There are twelve further performances until June 30.

● The night before, *Carolee River* was performed in St Paul's Church as part of the BOC Covent Garden Festival by Music Theatre Ulster, not with anything like the same intensity, though the simplicity of this late British score was generally respected.

Richard Fairman

ARTS GUIDE

BERLIN

OPERA/DANCE Deutsche Oper Tonight: Jesus Lopez-Cobos conducts concert performance of Beethoven's *Il Pirata*, with cast led by Lucia Aliberti. Tomorrow: Peter Schellhans production of *Giselle*. Thurs: triple bill of Stravinsky ballets. Wed, Fri: George Whyte's new Dreyfus opera, *quintet* by Josef Meier. Sat: *Madama Butterfly* with Helen Field. Sun: *Lothar* with Tina Kiberg, Gwyneth Jones and James O'Neal (341 0249). Stateoper unter den Linden Tonight: René Jacobs conducts concert performance this season of Strauss's opera *Die Frau ohne Schatten*, with cast headed by Janet Williams, Deborah Beronesi and Lynn Dawson. Tomorrow: Béjart *Les Femmes d'Alger*. Thurs: Set Paul Dessau's *Die Verurteilung des Lukullus*, with cast headed by Rainer Schöberg. Sun: Meisterlieder with so gut wie kein Gesang in enjoying another run of performances at Kleines Theater (821 3030).

La bohème. Fri: Prokofiev's ballet *Romeo and Juliet*. Sat: Così fan tutte. Sun: The Bartered Bride (229 2555).

CONCERTS Philharmonie Tonight, tomorrow, Wed: Pierre Boulez conducts Berlin Philharmonic Orchestra and Radio Chorus in works by Stravinsky and Ravel. Thurs: Andrei Gavrilov piano recital. Sat, Sun: Vladimir Ashkenazy conducts Berlin Radio Symphony Orchestra in Debussy, Britten and Richard Strauss, with violin soloist Ida Haendel. June 3, 4, 5, 8, 9, 10: James Levine conducts two different programmes with the Berlin Philharmonic (2548 8132).

Schauspielhaus Wed: Shlomo Mintz violin recital. Fri: Hans-Peter Frank conducts Weimar Staatskapelle in works by Borodin, Darius, Busoni and Strauss, with piano soloist Philip Fowke. Sun: Pasta Burchuladze song recital (2090 2156).

nightclub shows available from City Center Theater and Konzerthaus, Kurfürstendamm 18 (tel 882 6583 fax 882 6667) and Theaterkassette im Europa-Center (tel 261 7051 fax 261 9299).

NEW YORK

THEATRE ● Passion: Stephen Sondheim's new musical based on Igino Tarchetti's 1969 novel *Fosca* about a woman's unrequited love for a handsome young army captain (Plymouth, 236 West 45th St, 239 6200).

● The Loves Me: the 1983 Brock Hamrick and Masteroff musical is a delicate, unabashedly simple story with all the humanity, integrity and charm that Broadway's mega-musicals lack (Brooks Atkinson, 256 West 47th St, 307 4100).

Kushner's two-part epic conjures a vision of America at the edge of disaster. Part one is *Millennium Approaches*, part two *Perestroika*, played on separate evenings (Walter Kerr, 219 West 46th St, 239 6200).

● Broken Glass: Arthur Miller's new play, set in 1938 Brooklyn, about a woman who fights against a crippling ailment while her husband deals with his long-hidden shame (Booth, 222 West 45th St, 239 6200).

● Four Dogs and a Bone: John Patrick Shanley's satiric comedy about movie-making and power plays in Hollywood (Lucille Lortel, 121 Christopher St, 924 8762).

● The Sisters Rosensweig: Wendy Wasserstein's most successful play to date, a comedy with serious undertones about the reunion in London of three American Jewish sisters (Ethel Barrymore, 243 West 47th St, 239 6200).

● An Inspector Calls: J.B. Priestley's 1947 mystery thriller in an award-winning production from Britain's National Theatre, directed by Stephen Daldry (Foyale, 242 West 45th St, 239 6200).

● Most Satisfied: a one-man show about the political and social power structure in American life (Theatre Four, 424 West 55th St, 239 6200).

MUSIC/DANCE Metropolitan Opera American Ballet Theatre's repertory this week two Anthony Tudor ballets and *La Sylphide*. The company's Spring season ends next week with *La Sylphide* and *Giselle*. Daily except Sun (382 6000).

State Theater New York City Ballet's Spring season runs daily except Mon till June 26, with

choreographies by Balanchine, Robbins, Martins and Tanner. Mikhail Baryshnikov will perform Jerome Robbins' *A Suite of Dances* (Bach) on May 27 and 29. Several evenings are devoted to The Diamond Project, featuring new neo-classical ballets by Lisee Dove, Richard Tanner, Robert LaFosse and nine other choreographers (870 5570).

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Samuel Brittan

Changing cultures of capitalism



Does culture determine economic or economic culture? The issue has raged for a long time. Marx and contemporary Chicago economists are alike on the economic side; Max Weber, the early 20th century German sociologist who wrote about Protestantism and the rise of capitalism, on the other one.

Both have now accumulated a lot of egg on their faces. Attempts to explain the fundamentalist revolution in Iran in terms of rational utility maximisation by Iranian citizens have, to put it mildly, been extremely unconvincing.

Of course the cultural and economic spheres interact. Peter Berger, the American sociologist, has coined the term "economic culture" for the resulting product. As he explains in an article in the *McKinsey Quarterly*, the interaction has to be studied in careful case studies.

One reassuring conclusion is that comparative cultural advantage changes. The Japanese bent for organisation building may not be such an advantage in a post-industrial society based on information technology. Berger also throws much needed doubt on much of what is written about the Confucian element in Asian economic success. "Few Taiwanese entrepreneurs are steeped in the Confucian classics."

His most stimulating remarks are on the US-originated counter-culture of the late 1960s and early 1970s. Most of its members have now accepted "the system" but have retained some of the beliefs and lifestyle of their youth. They are to be found particularly in communications. (Their trademark can be very simple, such as avoiding wearing jacket and trousers of the same colour less they be accused of wearing a suit.)

Is this kinder, gentler capitalism doomed to be conquered by the uptight varieties? Berger wisely leaves open the alternative optimistic hypothesis that the more sensitive

types of behaviour may have an advantage in the emerging service economies.

Just how diverse the cultural forms of capitalism can be is illustrated in a new book of essays by American writers entitled *The Culture of the Market*. It is a book to dip into at leisure and will be most instructive if read without too relentless an attempt to derive lessons from it.

The essay nearest to the present day concerns the remarkable vogue of *The Lonely Crowd* published in 1954 by the American author David Riesman, the one sociologist to have made the cover of *Time* magazine. By the early 1970s more than 100 copies of the abridged edition had been bought and the book still sells.

The *Time* cover has two small-scale figures behind Ries-

Market societies have been associated with many different patterns of living

man's head. The first, "dressed in a dark Victorian suit and wearing long, bushy 19th century sideburns, seems to stride briskly and purposefully away from the reader, oblivious to all but his quest, a giant gyroscope strapped to his back. The second man, dressed in a light coloured suit, is a more modern 20th century man, perhaps a salesman, facing in the opposite direction."

The outer-directed person escaped from the authoritarianism of the 19th century home, school or business, only to be smothered by the new conformism of his peer group. Riesman had a knack of highlighting relevant children's stories such as the young engine Tootle, which lands in trouble because of its unwillingness to "stay on the tracks with the other engines".

Most of the chapters go back, however, to earlier periods. There is an absorbing essay about the painter Edgar Degas's tense relations with markets, which not only gave

him a varying sales outlet but were the source of some of his most famous pictures, such as a New Orleans cotton office, a scurrying stock exchange types. The most ambivalent of the pictures is *Madame's Birthday*, in which "tactile values" are graphically shown.

In a very different vein, there is an account of the American essayist Henry Thoreau's temporary period as a semi-hermitic refuge from commercial life. But so far from being any kind of collectivist, Thoreau was a radical individualist in the American mould, who could not resist instructing his readers on simple hermitage book-keeping and was not above some self-mockery.

At the opposite cultural extreme, Balzac's novel *Pere Goriot* reveals how far the European bourgeois has often been from any simple idea of utility maximisation: material goods are sought as symbols of honour, family dignity and snobbish attainment. The weekly budget of one character is exhausted in a vain attempt to arrive with clean boots at the home of a minor aristocrat.

But an antidote to nostalgia is provided in Martin Wiener's account of the moralist-diplomarian criminal policy of Victorian England, which some over-promoted British ministers would like to see restored.

Anthropological studies have shown the most varying patterns of linkages between different beliefs. Similarly capitalist heroes, who wrote their autobiographies as moral tales, could be anything from stern supporters of hierarchical order to rebellious hedonists and modernisers.

The main non-materialist advantage of modern capitalism is that it is a necessary - but far from sufficient - condition of an open society in which many alternative cultures can flourish.

Peter Berger, *The GNP and the Gods*, *McKinsey Quarterly*, 1994, No. 1. *The Culture of the Market*, edited by T.L. Haskell & R.F. Teichgraber III, Cambridge University Press, £35

Magnificent Rocky Mountain vistas dominate the view from Jeff Thredgold's new six-bedroom, seven-bathroom home near Salt Lake City, Utah. Walk out the front door of the imposing, pink brick structure, designed by Mr Thredgold himself, and within minutes you can be hiking in the foothills of Utah's Wasatch mountain range.

Less than an hour's drive away lie some of the world's leading ski resorts: Park City, Deer Valley, Snowbird and Alta. "Now this is living!" declares Mr Thredgold, surveying the Park City ski slopes over lunch on a warm, cloudless spring day.

Mr Thredgold, chief economist for KeyCorp, America's 11th largest bank, is part of a significant US business and social trend: a rapidly growing number of American companies and individual professionals are settling in the Rocky Mountain region, attracted by its open spaces, low cost of living, and pro-business politics.

Mr Thredgold's company is headquartered far off in the rustbelt state of Ohio. But modern communications mean he can keep in touch from the mountains of Utah, where he was raised.

He prefers to live here because of its quality of life, family and social ties, and the perspective a western base gives his economic analysis. He built his dream house for a fraction of what it would have cost in many large US cities.

Many newcomers are fleeing the once golden state of California, tired of its deep (though now ending) recession, regulatory red tape, high costs, pollution and almost biblical succession of recent disasters - race riots, earthquakes, and fires.

They have helped make the six states down the spine of the Rockies - Montana, Idaho, Utah, Wyoming, Colorado and New Mexico - plus Nevada and Arizona, the fastest-growing US region in recent years, measured by job creation.

Admittedly, this growth is from a modest base. The region is a vast, sparsely populated land, accounting for no more than 5 per cent of America's GDP, and encompasses great extremes of geography, from desert to rolling high plains.

Expansion is also bringing problems, ranging from social tensions between Rocky Mountain natives and the newcomers to long-term questions about the sustainability of growth and the adequacy of water supplies in this largely arid region.

Clean air, open spaces and low costs are drawing US professionals west, says Martin Dickson

Lone eagles nest in the Rockies



For now, however, the return is welcome in an area which has been traditionally dependent on mining, oil, farming and forestry, with an economic history of booms and busts tied to commodity cycles. In the late 1970s the region's main city, Denver, Colorado enjoyed spectacular expansion on the back of a global oil crisis, but as crude prices fell in the 1980s, the region missed out on the strong growth enjoyed by the US as a whole.

Ms Susan Platt, of the Colorado state Office of Business Development, avoids calling the current expansion a boom. "It implies things are out of control... We like to think it's healthy, because it's our turn, because we were so depressed when the rest of the nation was doing so well."

Many of the companies coming to the Rockies are small - the kind of business that is creating most new jobs in the US - and many of them are in high-technology areas such as computing and medicine. For example, Boise, the capital of Idaho, a state renowned for growing potatoes, had the greatest job growth of any US city last year (6 per cent) and high-technology employment there has expanded by more than 10 per cent a year for the past six years.

Companies are attracted by the region's cheap labour (the Rockies have among the lowest average wages in the US), and modest costs for utilities, workers' benefits, housing and office space.

They also like the region's strong work ethic. Utah, the fastest-growing Rocky Mountain state, with 6 per cent job growth last year, seems to be benefiting in particular from the fact that 70 per cent of its population belongs to the Mormon church, based in Salt Lake City. Mormons are known for strong family values and emphasis on education and hard work.

Some companies also hope the quality of life in the Rockies - with its wide open spaces, fresh air, low crime rate and small town values -

will help them attract and keep well-educated employees.

Says Ms DeDee Corradini, Mayor of Salt Lake City: "A decade ago, when I talked to businesses about moving to an area like this, they wanted to know what it meant for them financially. Today, I'm finding more and more asking: 'What's the quality of life? Will our employees and their families be happy living there?'"

The influx of professional individuals - such as fund managers, lawyers, computer experts, management consultants and writers - stems from two main forces. First, a large pool of these professionals is being created as US corporations struggling to stay competitive, spin off service functions to outsiders.

At the same time, modern communications - computer modems, fax machines and satellite television - allow professionals to live where they choose, if it is within striking

distance of a good airport.

Mr Philip Burgess, who heads the Center for the New West, a Denver-based think tank, calls the breed "lone eagles" - mobile knowledge workers who live by their wits.

"We are in an era of a great shift in lifestyle preferences," he argues. "More and more Americans are leaving big cities to pursue a better quality of life." This promises to revive small towns in attractive parts of the US, recently deemed to be dying as Americans moved to city suburbs.

Several Rocky Mountain towns have begun wooing freelance professionals, knowing they are not only highly paid but tend to sink their roots deep into a community. Says Mr Burgess: "They will serve on the library board and perhaps run for the county commission, bringing new ideas and a fresh perspective."

For example, Telluride, a former mining town in the Colo-

rado Rockies now one of America's most fashionable ski resorts, has a project to build a community wide computer network and improve communications with the outside world. Locals boast it has the highest per capita ownership of personal computers in the US.

But for all its benefits, the growth is also bringing problems. Many long-time Rocky Mountain residents deeply resent the newcomers, their wealth, cosmopolitan airs, and the inflationary impact on housing and farm land, which could create a gulf between haves and have-nots. Tensions have run particularly high in some Utah towns between straight-laced Mormons and free-wheeling Californians.

The big challenge facing local politicians, says Mr Michael Lewis, Utah's governor, is to balance growth against preservation of quality of life. "The more attractive you are the more people want to come."

Utah, for example, has become more discriminating about the kinds of business it tries to attract. A few years ago it was happy to take all comers. But Salt Lake City recently cold-shouldered a company which would have brought jobs to the area but demanded large water treatment subsidies.

Even if quality of life can be maintained, there remain big questions over long-term growth. Industry may become less enthusiastic about the Rockies when wage rates rise closer to the national average. And high technology jobs can be destroyed by sudden technological shifts. California, for its part, is starting to fight back against the business exodus, for example by simplifying its red tape.

On top of all this, growth will eventually bring to the Rockies a problem faced by all of the arid, western third of the US, but which regional boosters like to ignore: a shortage of water, pitting state against state and farmer against town-dweller.

Herculean damming and water diversion efforts mean this may not be a problem for 20 to 30 years or more. But as the late Wallace Stegner, a leading novelist and historian of the region, pointed out: "Sooner or later the west must accept the limitations imposed by aridity, one of the chief of which is restricted human population... Ghost towns and dust bowls, like motels, are western inventions."

LETTERS TO THE EDITOR

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Empirical issue in need of research

From Mr Dan Corry.

Sir, Does Michael Prowse ("Market v state in Education", May 16) really think that Financial Times readers are unfamiliar with the simple textbook theory as to why markets work best, so that we need a patronising fable about books to explain it to us?

To be able to say, as Prowse does, that "greater choice of school is indisputably a good thing", one must be embracing a myriad of assumptions about information, externalities, economies of scale, income distribution, accompanying social policies and so on. All of these are questionable.

Let's be frank: most people want a good school round the corner from their home, not a theoretical choice of 100 schools, especially when the transport implications of going anywhere but the nearest of them rule most out, and when the good schools have no space and so in reality they choose their pupils (and parents) rather than the other way round.

So in order to work, the choice argument has to claim that, by offering choice and competition, not only will the average level of education rise, but we will not end up with a split between geographically concentrated good schools and sink schools.

It must also be shown that the effort made by schools to differentiate their product (maybe no more than school versions of advertising - a largely deadweight cost to the economy) and the search costs that must be undergone by parents are all outweighed by the anticipated benefits.

As in so many other areas, these issues must surely be empirical ones that should be opened up to piloting and research - like the OECD study of parental choice of schools.

Simple ideology based on hopeful models of how the real world works may suit Prowse, but should not sway serious policy makers.

Dan Corry, editor, *New Economy*, Institute for Public Policy Research, 30-32 Southampton Street, London WC2E 7EA

Dividend payout problem unclear

From Prof D.R. Myddelton.

Sir, Mr Stephen Dorrell is reported to have said (in a speech to the CBI this week) that dividend payouts by British companies may have become too high and too inflexible ("Dorrell critical of high dividends", May 19).

According to him, in the early 1980s companies were distributing between 20 and 25 per cent of their after-tax earnings in dividends; but the payout ratio has risen to more

than 50 per cent in the early 1990s.

There is no virtue in companies retaining profits if they cannot invest the funds profitably. And the Wilson Committee found no evidence that medium or large companies were prevented from investing in profitable projects by any lack of funds. So it is not clear that there is any problem.

Mr Dorrell, being a Treasury minister, will be aware that the pound has lost more than

90 per cent of its purchasing power over the past 30 years. How have his calculations allowed for the debasement of the currency? It does have a significant effect on financial statements which use money as the unit of account in measuring "earnings".

D.R. Myddelton, professor of finance and accounting, Cranfield School of Management, Cranfield, Bedford MK43 0AL

Russia yet to follow Estonia's example

From Prof Steve H. Hanke.

Sir, Your editorial commentary "Chernomyrdin sees the light" (May 18), attempts to portray yet another Russian prime minister as an economic reformer. You claim that Mr Chernomyrdin has taken to heart the experience of "the former Soviet Baltic states, especially Estonia". This assertion is incorrect.

Estonia's record on inflation and growth has surpassed other former Soviet republics. That is due, in large part, to Estonia replacing the ruble with the kroon and introducing a currency board-like system on June 20 1992.

Under that system, the kroon is backed 100 per cent by foreign reserve currencies and

gold and is freely convertible at a fixed rate of eight kroons per D-Mark. The Bank of Estonia cannot engage in discretionary monetary and/or exchange rate policies. It cannot finance fiscal deficits. Indeed, the bank's hands are tied, so that changes in the stock kroons are automatically determined by the free flow of monetary reserves in and out of the bank.

The Russians, including the so-called reformers, have always rejected what has become the hallmark of Estonia's reforms, the currency board system. For example, in 1991 most of the future Russian "reformers" attended meetings in Paris. It was there that the young turks selected Mr Yegor

Gaidar to be their leader. It was also there that they were introduced to the currency board idea. Since then, Russians of all stripes have expended considerable effort defending the institution of central banking for Russia and objecting to the currency board alternative.

If Mr Chernomyrdin is ever to be serious about the goal of currency stability, he must tie the hands of the Central Bank of Russia. To do this he must do what Lithuania did on April 1, when it followed the Estonian example. Steve H. Hanke, professor of applied economics, The Johns Hopkins University, Baltimore, US

Private pay rises knock-on to public sector

From Mr Chris Trinder.

Sir, In "Hunt issues fresh warning on pay rises" (May 19), the emphasis was on the need for businesses to control their wage costs so as to maintain their competitiveness.

While this is important there are wider implications of the recent rapid increase in private sector pay. One aspect is the knock-on effect to future public sector pay awards.

The pay review bodies for nurses, armed forces and teachers, for example, regularly refer to "backward" looking comparisons with earnings in the previous 12 months in the whole economy when they make recommendations for the forthcoming year. Increases in the current year, unless September will form an important part of their considerations for public service pay

between April 1993 and March 1994. Similar arrangements, such as inter-quartile ranges of past pay movements, apply in the long-term pay agreements for civil servants.

In addition to the institutional considerations, econometric analysis for the period 1963-1983 (which I carried out with SGB Henry and N Foster and published while at the National Institute of Economic and Social Research in the 1980s) "proved" public service pay is largely determined by earlier developments in the private sector.

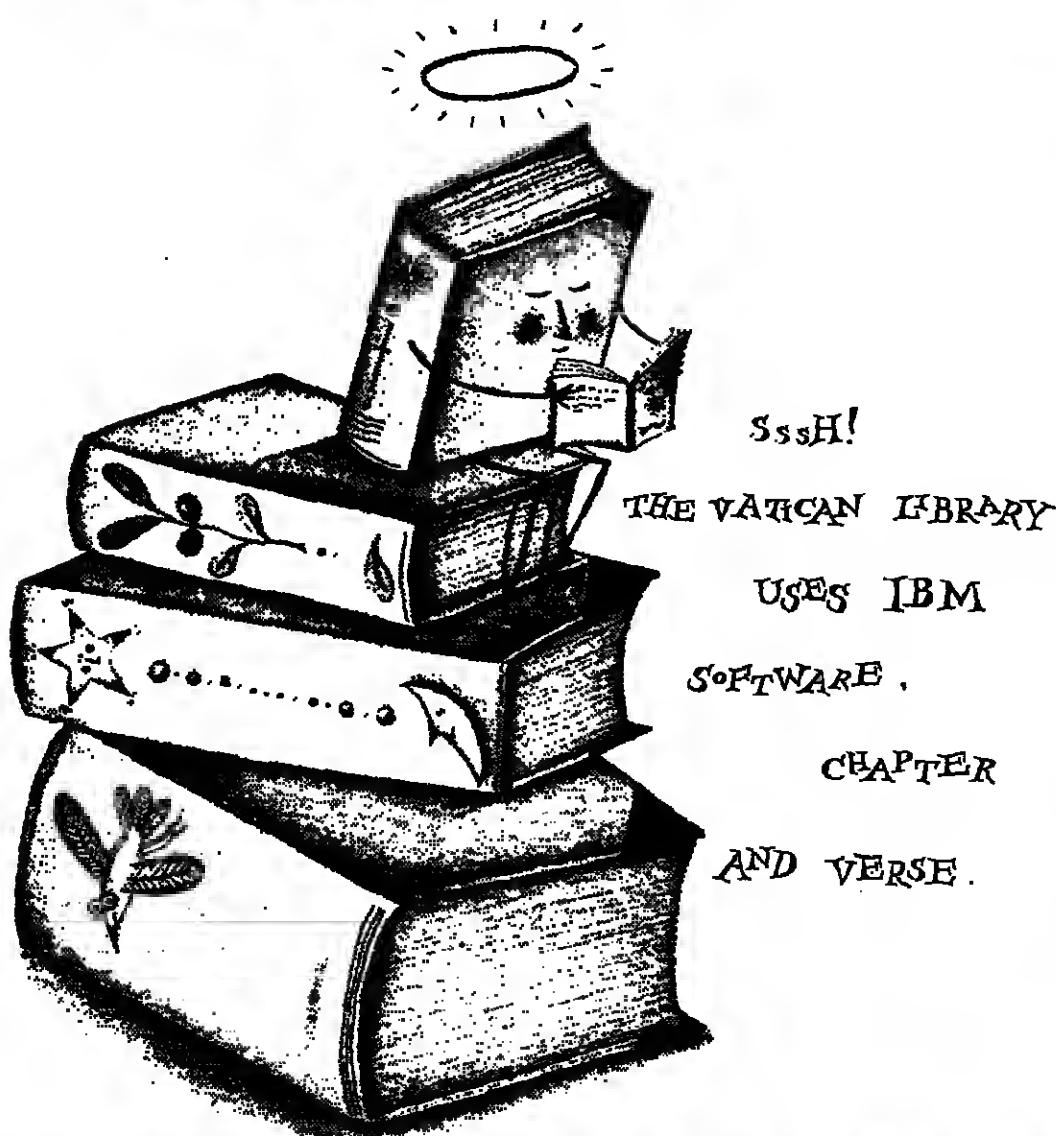
The "lags" were often long and also variable, anything from three-quarters to three years, but in the long run current private sector pay increases were the single most important determinant of future central and local

government pay levels.

The significance of these "facts" is that, although the government may announce public sector pay "restraint" and implement it for a period, if pay in other parts of the economy continues to rise at a much faster rate, then to recruit, retain and motivate people of appropriate quality for the public services it is necessary to raise those wage rates too. The "funding" limits operated by the government over the medium term to that extent restrict the quantity and quality of the public services available, but the long-term "price/wage" are outside its control.

Chris Trinder, CIPFA, 3 Roberts Street, London WC2N 6SH

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Monday May 23 1994

Mr Clinton's global vision

No US President has proclaimed more fervently than Mr Bill Clinton the central importance of international economic policy to his country's welfare. In an increasingly interdependent global economy, his choice of priorities is correct. Yet his administration's record in matching words with deeds has been patchy.

Mr Clinton deserves much credit for steering the Nafta treaty through Congress and working for the successful completion of the Gatt Uruguay Round last year. Since then, however, his policies have lacked coherent direction - nowhere more obviously than in his dealings with Asia. He has vacillated over China, while US relations with Japan have been dominated by a myopic obsession with its bilateral trade surplus. In both cases, the US stance has been heavily influenced by narrow, sometimes conflicting, domestic concerns.

As a consequence, the administration has seemed not to appreciate fully the bigger national and global interests at stake, and has sometimes pursued contradictory objectives. It has talked enthusiastically of its wish to co-operate more closely with the fast-growing Asian economies of the Pacific rim, while pursuing policies which have severely strained relations with the region's two largest and most powerful countries.

There are signs that Washington may now be starting to recognise the drawbacks of its approach. One is that Mr Clinton looks increasingly likely to renew China's most favoured nation trading status in the next few days, albeit with possible qualifications. At the same time, his administration has conspicuously toned down its rhetoric towards Japan. US officials have indicated that they are rethinking their tactics in an effort to restart negotiations on a "framework" trade agreement with Tokyo, which broke down in February.

Modest concessions

The most plausible explanation in both cases is that US failure to think through its policies at the outset has steadily reduced its available options. Having failed to extract more than modest concessions from Beijing on human rights, Washington appears only

now to have realised just how damaging would be the consequences of following its own logic to its conclusion by refusing to extend MFN.

In Japan, continuing political instability makes it increasingly doubtful that the country's minority government can deliver macro-economic reforms and market access measures on the scale demanded by Washington, even if it wanted to. Meanwhile, recent US jitter about an uncontrolled slide in the dollar mean that trying to force up the yen is not an option.

Offending countries

As a result, President Clinton's revival of the Super-301 trade mechanism - apparently in an effort to buy time for further talks with Japan after February's breakdown - looks in danger of backfiring. Mr Clinton must name offending countries, liable for trade sanctions, by September 30. Not to do so would risk accusations at home of weakness, doing so would escalate the confrontation with Japan, without improving the prospect of winning more concessions. Washington's best hope must thus be to stitch up some kind of deal before late September, declare victory, and move on.

This would also be the most positive outcome - providing it leads Washington to place future relations with Japan on a more rational footing. US insistence that its economic growth is seriously threatened by closed Japanese markets is overblown. Even if last year's bilateral deficit had been halved entirely through increased US exports - an improbable scenario - it would have added only 0.5 per cent to US gross domestic product. That hardly seems a large enough prize to justify the political effort expended, or the threat US tactics pose to the world trade system.

The most important lesson for the US is that the recent problems in its dealings with both Japan and China are, for different reasons, largely of its own making. If they are not to be repeated, President Clinton needs now to clarify and give real substance to his commitment to international economic policy. America's trade partners have every incentive to encourage him in that objective.

The liabilities of auditors

It is more than a little ironic that while the senior partners of the UK's accounting firms are calling for a limitation on their liability in lawsuits, the heads of their own insolvency practices are busy issuing writs against each other's firms for negligent auditing.

A campaign backed by the largest accountants in the US and Australia has now been imported to the UK. It calls for auditors to be protected from vexatious legal actions by the shareholders and purchasers of companies in which the accounts turn out to have been misleading.

The firms claim that plaintiffs seek disproportionate penalties from them for the losses caused, because their assets and insurance policies give them "deep pockets" of which to pay damages. Those who are responsible for the frauds and misstatements, notably the directors, tend to escape relatively unscathed.

In principle, the argument for reform seems sound. It must be unreasonable for auditors to be held wholly responsible for corporate disasters when they have not been the direct cause of the problems. Their failure to detect or highlight shortcomings should make them only partly culpable.

Yet reform would require radical changes in the law, overturning the principle of "joint and several liability", so that auditors would only be liable to losses in proportion to their degree of blame. This would dilute plaintiffs' rights, and require the consideration of the Law Commission, which has indicated its lack of interest by telling the profession that it has no time to consider the issue in the foreseeable future.

The firms' response has been to suggest a flawed alternative: to remove section 310 of the 1985 Companies Act - which expressly forbids auditors from limiting their liability in contract. They say no such restriction applies to other professions, such as solicitors.

Important safeguards

While this is true, lawyers have not in practice attempted to limit their liability in contract. They consider that they could still be found negligent and sued, making any limits imposed in the contract irrelevant.

Removing section 310 would also eliminate one of the most important safeguards which stand behind an audit. This is the knowledge that, when a firm gives an independent, professional opinion, it is putting its reputation, livelihood and the assets of all its partners on the line.

Self-regulation and tighter standards appear to have had some limited effect on improving the quality of auditing. But the threat of litigation must help to concentrate the mind when it comes to making sure that the audited accounts show a "true and fair view", as the law demands.

Unique benefit

Accountants have the unique benefit of a government-guaranteed monopoly of auditing. This is designed to provide reassurance to shareholders but it also provides firms with lucrative fees and a ready platform to sell other services to companies.

At the same time, they have shown themselves reluctant to go to court when sued for audit negligence. They have chosen instead to settle on the steps of the court rather than have their work scrutinised in public and run the risk of an award against them. These settlements are made without admission of responsibility, but they do not make it easier to establish the case for reform.

The firms and their insurers have also not been above a little creative accounting themselves. They have chosen to highlight the enormous rise in the number of legal claims against them, while failing to reveal the far smaller size and number of awards that have actually been made.

On the rare occasions when cases have been contested - such as the Caparo, Galloway and Berg cases - the courts have in practice demonstrated considerable sympathy for the profession, tightly restricting its duty of care, and limiting damages rather than awarding disproportionate penalties against them.

While accountants refuse to disclose any details of their own profits and assets, on the extent of their professional indemnity cover, they will find it hard to persuade others that the case for reform is as soundly based as they claim.

An ambitious £2bn proposal to build the first east-west rail link across London comes to grief in a parliamentary committee of just four MPs. Despite the backing of not merely the government, but also the opposition Labour party and the capital's business interests, CrossRail is rejected because traffic projections have changed since it was planned in the late 1980s.

CrossRail has, regardless of its merits, come to reflect a wider malaise in Britain's transport policy. Many experts, planners and transport operators, as well as the travelling public, agree that transport planning in the UK is failing to deliver the goods. Criticism has come from organisations as diverse as the Confederation of British Industry, the Royal Institution of Chartered Surveyors and the Council for the Preservation of Rural England. Many of the objections centre on the perception that the government favours the private car over public transport.

High-profile public protests against a number of road schemes have spilled over into violence in some instances. More attention-grabbing demonstrations are expected against a bypass to the east of the picturesque Georgian city of Bath and against a motorway extension through an area of great natural beauty south of Blackburn.

Meanwhile, congestion is stifling towns and cities while delaying commuters on their journey to work, cross-country motorways are clogged by traffic jams with increasing frequency, while rail services are in the throes of privatisation with a still uncertain outcome. London Underground suffers frequent breakdowns because of ageing equipment; the government has cut back on its £22bn 10-year roads programme and set more realistic priorities; and delays on a high-speed rail link between London and the Channel tunnel mean it will not be completed until at least eight years after the tunnel itself has opened for business.

Yet across the Channel, French passengers enjoy inter-city trains travelling at speeds of nearly 190mph; German commuters travel on spanking new underground systems; and the Dutch get to work on a road network which provides extensively for the cyclist.

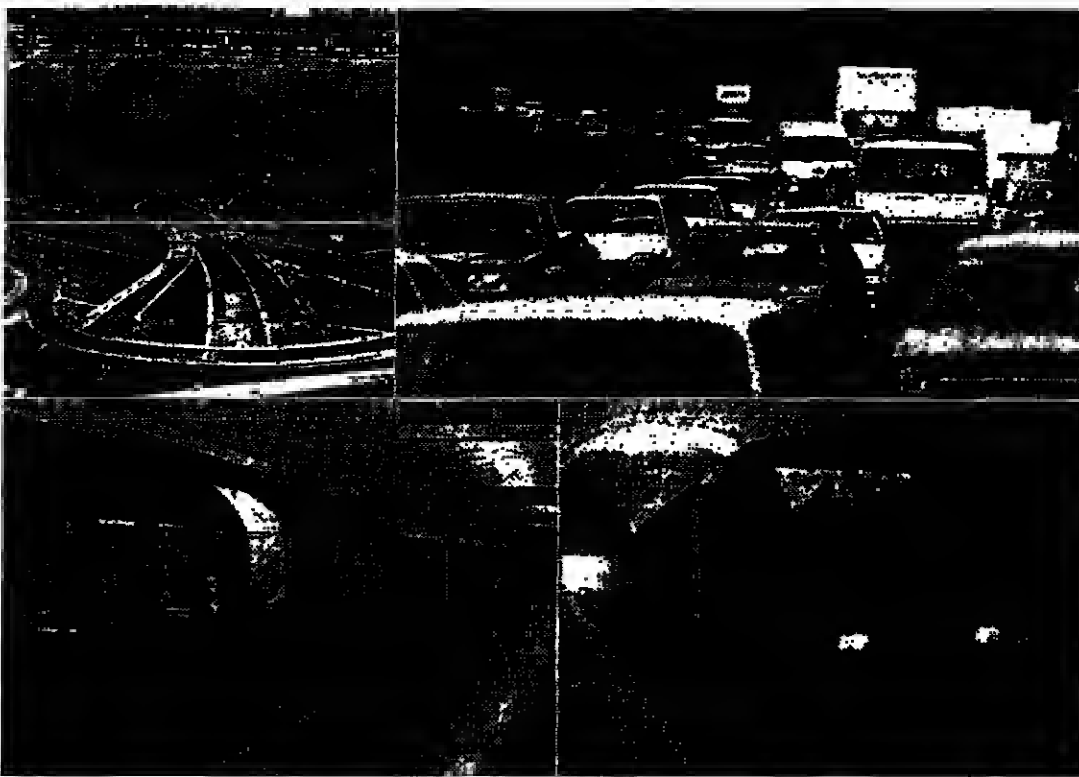
Mounting public dissatisfaction over transport provision in the UK has pushed the issue to the top of the political agenda. Tory backbenchers have joined a revolt against a programme for building trunk roads and motorways.

The main criticisms of the government's present transport policy are that:

• There is no long-term approach to planning transport infrastructure

Every which way but the right way

The UK government has yet to deliver a coherent transport policy, says Charles Batchelor



projects. As it takes several years to plan, prepare and construct a large transport link, a short-term outlook can make a nonsense of such a project. The reason is that traffic or passenger flows are subject to change during the planning and construction period. CrossRail provides a striking example of this. If traffic demand increases during the economic recovery there may once again be a need for a cross-London link and the whole planning process will have to start again.

"The British government machine, with its... year-by-year battles, is fundamentally ill-suited to dealing with the timescales intrinsic to transport decisions," concluded the authors of *Transport Policy-Making in Britain*, a recent study by the London School of Economics. Parliament votes funds for one year; government departments are encouraged to think three years ahead; while the election timetable imposes a four- or five-year time

frame on thinking. Contrast this with the long-term strategic planning, often backed by a guarantee of government funds, in many other European countries. Switzerland has embarked on a 12-year programme, Bahn 2000, to upgrade its rail network, while the Netherlands has a 15- to 20-year perspective for its Rail 21 project.

• There is little co-ordination of road building with public sector spending on rail or urban light railway systems in the UK. Transport projects are judged individually, largely by their contribution to reducing congestion in a specific area, says Steer Davies Gleave, transport consultants.

Moreover, says Steer Davies Gleave, the way in which the UK assesses the merits of different forms of transport tends to favour the private car. The government offsets against the cost of a road construction project the money value of the time saved by users. But, in

the case of public transport projects, it does not. German and French assessments do not reflect this bias.

• Tight control by the Treasury adds to the tendency to adopt short-term financial goals on transport projects. Each rail project requires separate Treasury approval, while schemes in the 10-year roads programme do not.

The injection of more private sector finance was seen as a way round tough controls on public spending. But this, too, has run into the buffers of Treasury control. Private sector bids to modernise London Underground's Northern Line are due shortly, but problems have arisen over the degree of risk to be carried by the private sector. "Government is discovering, says the LSE study, that "you can either have control or majority private finance, but you cannot have both."

• The government does not spend enough on the transport infrastructure. Last November of all transport expenditures the roads budget was most severely cut. Over the long term, however, it is public transport which has suffered most, critics say. John MacGregor, the transport secretary, points out that 40 per cent of public transport although nearly 90 per cent of journeys are made by motor car. But overall spending on schemes involving all forms of transport is set to fall 13 per cent over the next three years to £5.4bn, according to transport department forecasts.

The UK spends less on rail infrastructure than any other European country except Finland. Germany's superior commitment to rail, by contrast, is evidence in its plans to invest more in its rail network than in roads in the period up to 2010.

What does the government say to such criticisms? It believes attempts to establish an integrated plan for transport would not succeed. "We don't believe in a centralised system which tells people how to travel," Mr MacGregor said recently. The government is, however, trying to create an overall framework which meets the needs of the economy.

While it does so, it can draw to its critics' attention a shift in its own approach. This change is driven, in part, by a growing realisation of the environmental impact of an untrained increase in road traffic. Yet any shift is constrained by its calculation that even a 50 per cent increase in rail traffic would reduce the number of road journeys by only 5 per cent.

The government is increasing fuel duties by at least 5 per cent a year to meet the Rio targets for CO₂ emissions, implicated in global warming. There have also been potentially far-reaching changes in government planning guidelines, among them one in March calling on local authorities to limit the scale of out-of-town commercial developments and reduce reliance on the private car.

Even more far-reaching are plans to introduce tolls on Britain's motorways. Indications are that, in the early stages, these will be set low, but they may still prompt a shift towards public transport.

Government rhetoric on public transport is also changing. As yet, however, there is no commitment to extra funding. Without such a commitment, the travelling public and much of industry are unlikely to be satisfied. They await hard evidence of government determination to solve chronic transport problems and give coherence to planning, whose dislocation was so evident in the CrossRail debacle.

Murky outlook for healthcare reform

Little of substance on healthcare reform will be agreed before the mid-term elections in November. The most that President Bill Clinton can expect is a deal with Republicans on incremental reforms of the health insurance market, for example legislation to prevent discrimination against people with "pre-existing" conditions.

I received this gloomy assessment last week from one of the most respected analysts on Capitol Hill. He spoke, ironically, just as a milestone of sorts was passed in the healthcare saga. Last Wednesday, two of the five congressional committees with jurisdiction over healthcare - those headed by Senator Edward Kennedy and Mr Dan Rostenkowski - finally began serious scrutiny of reform proposals.

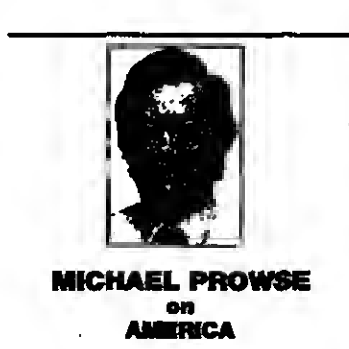
On the evidence of the stormy opening sessions, it would be rash to make any prediction of the final legislative outcome. Republicans tabled more than 100 amendments to Mr Kennedy's compromise bill and denounced it as a pastiche of Mr Clinton's "socialised medicine". Yet the mood changed the following day when they reached a surprising bipartisan accord on ways of containing the cost of a minimum package of bene-

fits. The fact that Mr Rostenkowski, the Democrats' quarterback in the lower house, faces possible indictment on felony charges only adds to the uncertainty.

Nobody doubts the depth of Mr Clinton's commitment to healthcare reform - the centrepiece of his legislative agenda. He and the first lady have campaigned tirelessly for reform. The Democratic party enjoys comfortable majorities in both houses of Congress. Why, then, is he facing such an uphill battle?

The answer lies in the nature of America's healthcare dilemma. Social reforms tend to be popular only when most people regard themselves as beneficiaries. In the late 1940s, Britain's National Health Service was a wild success because it greatly improved access to care for all but the seriously rich - and the cost in terms of higher taxation was not generally appreciated. In the late 1960s, much the same could be said of Medicare, the popular US public programme that guarantees universal access to care for the elderly, at highly subsidised rates.

Now consider the Clinton reform. Rather than expanding opportunities it is about restraint and redistribution. The goal is to provide coverage for the 15 per cent of the

MICHAEL PROWSE
ON AMERICA

population presently uninsured (inevitably a costly endeavour) while reducing the growth of overall healthcare spending - in the private as well as public sector.

Ratcheting down growth of overall spending, while shifting resources to the uninsured, obviously requires new constraints on the 85 per cent who are insured, especially in their access to expensive high-tech medicine. Such constraints - however dressed up - are unlikely to be popular, particularly when no US politician, least of all Mr Clinton, will admit that any sacrifice is required.

It is thus not surprising that congressional leaders, reacting to opinion polls, have already scuttled two

of the principal restraints on spending proposed by Mr Clinton. Hopes of shifting Americans en masse into managed care by coralling them in mandatory "health alliances", or quasi public sector purchasing co-operatives, have been abandoned. So, probably, has the White House dream of imposing caps on the growth of private health insurance premiums. Effective cost control looks to be a dead letter.

The remaining question is whether Mr Clinton will succeed in guaranteeing universal coverage - supposedly his non-negotiable bottom line. Americans seem unwilling to countenance either an overt increase in personal taxation or, after a decade of red ink, a higher budget deficit. The White House thus concluded that the only plausible route to universal coverage lay in imposing an "employer mandate" - a legal requirement that all employers must pay the bulk of insurance costs for employees.

Yet this disguised tax is also strongly opposed, especially by small business, a politically powerful group. It seems draconian to impose new burdens on businesses just recovering from recession. And it is hard to refute the argument that higher payroll taxes will destroy jobs. Indeed many question

the wisdom of increasing the corporate sector's social responsibilities at a time when links between employers and employees are becoming more, rather than less, fluid. Yet nobody in Congress has devised a plausible alternative route to universal insurance cover.

In gauging Mr Clinton's chances this year, the best legislative parallel is perhaps the cumbersome 1986 Tax Reform Act. At the eleventh hour, congressional leaders confounded sceptics by agreeing sweeping reforms - albeit reforms that differed substantially from President Reagan's original proposals.

Yet Mr Clinton should not draw much comfort from this. Tax reform, although highly complex, was manageable because lawmakers could trade concessions (for example higher corporate taxes in exchange for lower personal rates) almost at will. Healthcare reform is more demanding because the component parts must be internally consistent. Even setting aside political differences, Congress may simply lack the technical skill to devise a workable reform of US healthcare - one seventh of the economy - before November. Hence the plausibility of predictions that Mr Clinton, this year, will have to settle for modest reforms.

Ancient Greek rituals

■ Much in need of an international image makeover, Greece could have made a start by fielding some bright young politicians for next month's Euro-elections.

Instead, prime minister Andreas Papandreu's list of candidates reads like an exercise in personal debt repayment. Angela Kokkila, Papandreu's secretary for a couple of decades until his new wife Dimitra decided she wanted the job, is for instance certain to win one of the 25 seats.

Journalist Yannis Roubetis has another safe slot. Once Papandreu's loyal spokesman, Roubetis was caught up in the backwash of the Bank of Crete embezzlement scandal which toppled the government in 1988, and kept him on the sidelines for quite some time too.

The opposition, meanwhile, has made a stab at sprucing up its image by including the well-known singer Nana Mouskouri. Sadly, she is so rarely sighted in Athens that many Greeks think she is French.

Alexis Panagoulas, who is coaching the Greek soccer team for its first appearance in the World Cup this summer, is another unusual choice.

However, if Greece's 5-0 thrashing by England at Wembley last week is anything to go by, Panagoulas might find the bright lights of Brussels an attractive proposition next season.

Whale of a story

■ Good news for whales. A group of islands in the Caribbean is fighting about the creation of a whale sanctuary in Antarctica. Their input could tip the balance at this week's International Whaling Commission meeting in Mexico.

Whales are spotted but rarely in these waters - and caught still more infrequently. But Dominica and its neighbours, Grenada, St Lucia and St Vincent, have emerged as important players in global whale politics. Japan, which wants commercial whaling to continue, has been jolly generous to the islands with the result that they have happily toed its line.

However, environmental activists have been working hard to keep tourists from visiting the Windwards and the campaign is starting to bite. Last week Dominica broke ranks and said it would support the sanctuary idea. St Lucia might follow.

But the Vincentians are standing firm. They obviously just won't

OBSERVER



risk missing that very occasional whale that swims by.

Betting bachelors

■ A veritable connoisseur of pocket-burning days at the races, Observer could tell the University of Seiford a thing or two about the economics of gambling. But the dons, whose colleagues in the English faculty recently added Jackie Collins to the syllabus, seem to want input of a rather more sophisticated nature.

Advertising in this week's Economist, Seiford is looking for a director for its new Centre for the Study of Gambling and Commercial Gaming. The aim, apparently, is to develop a degree in "economics with gambling studies" as well as to research this "relatively underdeveloped" by-way of the dismal science.

The fund-raising part, at any rate, should be a cinch; the vice-chancellor will no doubt be hovering by his phone on Wednesday, ready to offer felicitations to whichever consortium is named to run the National Lottery.

Munk's new habit

■ US interior secretary Bruce Babbitt should know better than to shoot his mouth off in front of American Barrick's Peter Munk - a Canadian entrepreneur acquiring a reputation as someone who sues foreign governments and wins. Babbitt was mighty rude about him last week.

It all started after Munk's lawyers forced Babbitt's department to hand over the deeds to Nevada's Goldstrike mine, which sits on America's largest gold deposit. Babbitt described it as the "biggest gold heist since the days of Butch Cassidy" and had a mock cheque

for \$10bn made out to the company and signed by the American people.

Munk admits that the 1874 mining law, which enabled his firm to mine gold without paying government royalties, is outdated. But he played by the rule book and when Babbitt tried to block him, Munk took him to court and won.

Describing the deal as a "\$10bn rip-off" is "emotional nonsense", says Munk. Even if his firm earns \$10bn in revenues over the next 20 years, Babbitt forgets that \$6bn will be paid to Munk's US workforce, and another \$1bn has gone on equipment. And then there will be the taxes on any profits.

A big fan of the legal process, Munk spent 15 years chasing the Egyptian government for \$17.5m after it let him down on a long forgotten hotel project.

But even he is unlikely to sue for defamation. He's got what he wanted. Moreover, Lloyd Cutler, who helped win his case, then answered the call to become White House special counsel and is thus busy with President Clinton's much more complicated legal affairs.

Pounding the beat

■ Don't be fazed if your Glaswegian friend and creditor asks for his "Pavarotti" back. He's just referring to the outstanding tenner.

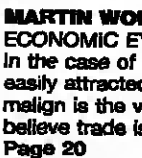
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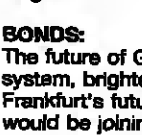
MARKETS
THIS WEEK



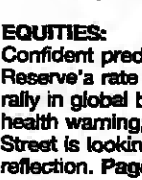
MARTIN DICKSON:
GLOBAL INVESTOR
After a terrifying spring roller-coaster ride, can global bond and stock markets now look forward to an enjoyable early summer rally? The Federal Reserve's tightening action last week, coupled with a statement implying it will not raise rates for some time, has prompted a rally in the US stock and bond markets, and helped sentiment in Europe. Page 20



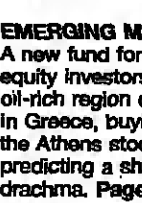
MARTIN WOLF:
ECONOMIC EYE
In the case of international trade, people are too easily attracted by two false analogies. The most malign is the view that trade is war, while others believe trade is similar to inter-firm competition. Page 20



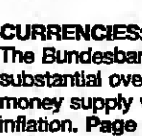
BONDS:
The future of Globex, the electronic futures trading system, brightened this week when DTB, Frankfurt's futures and options exchange, said it would be joining. Page 22



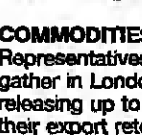
EQUITIES:
Confident predictions that the US Federal Reserve's rate increases had set the stage for a rally in global bond markets are now carrying the health warning: "dollar permitting". Meanwhile Wall Street is looking forward to a week of quiet reflection. Page 23



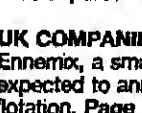
EMERGING MARKETS:
A new fund for Oman is about to give international equity investors access, for the first time, to the oil-rich region of the Persian Gulf. In Greece, buying opportunities are expected on the Athens stock market this week, with brokers predicting a sharp decline in the value of the drachma. Page 21



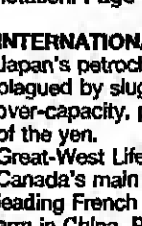
CURRENCIES:
The Bundesbank has been cutting rates despite substantial overshoots in M3, the broad measure of money supply which is a leading indicator of future inflation. Page 21



COMMODITIES:
Representatives of coffee-producing countries gather in London today to discuss ways of releasing up to 2.5m bags of beans stored under their export retention scheme. Page 20



UK COMPANIES:
Ennecor, a small aggregates company, is today expected to announce plans for its unusual flotation. Page 18



INTERNATIONAL COMPANIES:
Japan's petrochemicals companies have been plagued by sluggish domestic demand, over-capacity, plunging prices and the appreciation of the yen. Great-West Life, one of Power Corporation of Canada's main subsidiaries, is linking with Axa, a leading French insurer, to establish an insurance arm in China. Page 19

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Singapore Telecom rises 19.5%

By Kieran Cooke
in Kuala Lumpur

Singapore Telecom (ST), the island republic's partly privatised telecommunications and postal company, has announced pre-tax profits for the year ending March 31, 1994, of S\$1.55bn (\$1bn), a 19.5 per cent increase.

Turnover increased 15.6 per cent to S\$3.15bn. The gross dividend was raised to 3 Singapore cents from 1.7 Singapore cents.

The government floated about 11 per cent of ST last October, in Singapore's biggest ever privatisation. The company is the largest on the Singapore exchange with a market capitalisation that at one stage stood at S\$70bn - about 80 per cent of the market capitalisation of British Telecom.

ST attributed the strong financial performance to economic growth in Singapore and its region and the introduction of new services. Singapore's economy grew 9.9 per cent in 1993 and 11 per cent in the first quarter of 1994.

ST's directors said the group's results exceeded forecasts made in a prospectus issued before last year's flotation. They were confident that group turnover would continue to grow in tandem with the Singapore economy.

Analysts said that while ST has become one of the world leaders in introducing new services, its future growth was limited by the small size of its domestic market. Singapore has a population of under three million.

Lloyds' offer for C&G likely to spark calls for clarification of building society takeovers

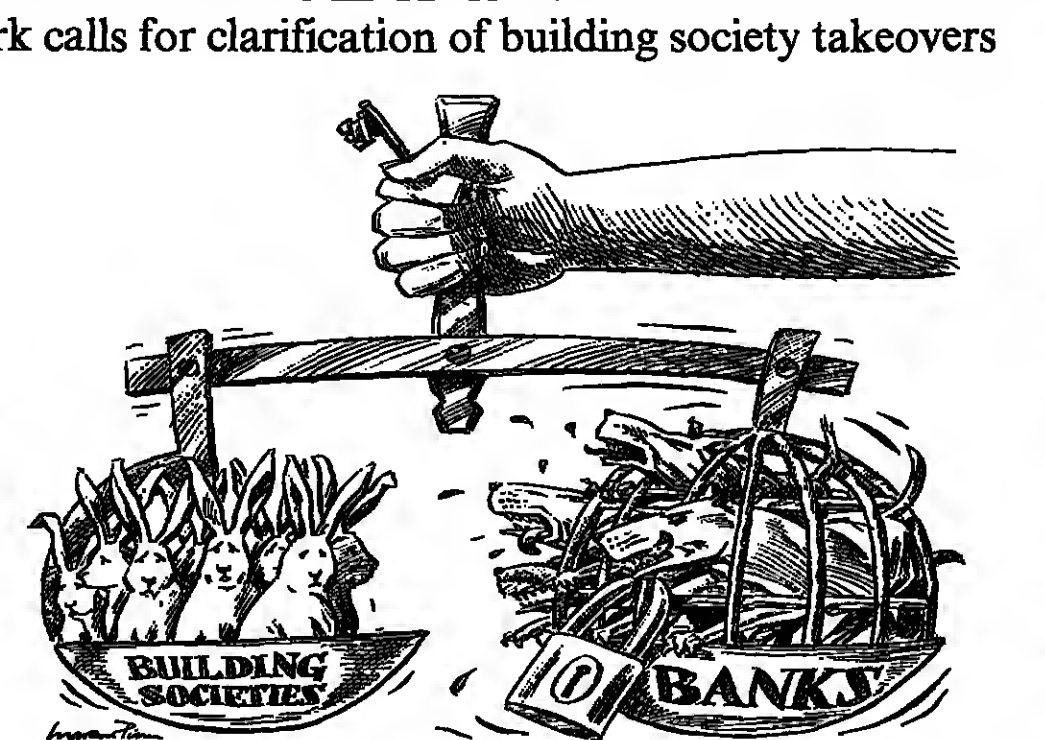
UK banks may press government on bid policy

By Alison Smith in London

Some leading British banks are likely to press the government not to block agreed cash offers for other building societies if the Lloyds Bank £1.8bn (\$2.7bn) bid for Cheltenham & Gloucester survives the legal challenge which begins in the High Court tomorrow.

Banks which have expressed an interest in acquiring societies believe it would be unfair if the Lloyds deal was allowed to go ahead and ministers then changed the law to prevent a similar cash bid in future, where both organisations wanted to proceed.

C&G and the Building Societies Commission, the sector's statutory regulator, are seeking clarification from the courts about whether the transaction is allowed by the 1986 legislation governing societies. The court judgment is expected later this week. Approval for the transaction could spark other bids for societies, leading to a restructuring of the UK's financial services industry.



was set up as part of the government's deregulation initiative.

Mr John Fry, group services director at Abbey National, said it would be inequitable if the government reinstated the two-year restriction and did not at the same time look at other aspects of the legislation, such as lowering the high levels of member support needed for a merger, and increasing the accountability of a society's board to its members.

The Royal Bank of Scotland, which has expressed interest in making an offer for a society, said it would be "very unusual, albeit in a slightly different form," he said. He added that the deal offered a new approach to mergers in which both partners retained their identities and high levels of autonomy.

ARM in chip licensing deal with Samsung

By Alan Cane in London

The UK-designed silicon chip which powers Apple's "Newton" electronic notepad seems set to enjoy a vastly bigger market as the heart of a wide range of consumer and professional products from the US and the Pacific Rim.

Acorn Risc Machines, which designed the chip, says it has licensed its microprocessor technology to Samsung Electronics of South Korea, the world's seventh largest semiconductor maker. The value of the deal has not been disclosed. It is the sixth large licensing deal ARM has struck with a large electronics group since it announced its microprocessor designs in 1981. The others are Texas Instruments, Cirrus Logic and VLSI of the US, Sharp of Japan and C&G Plessey of the UK. VLSI, a chip designer and maker, holds a stake in ARM along with Acorn Computers, owned by Olivetti of Italy, Apple Computers of the US and Daiwa Securities of Japan.

Samsung Electronics, part of the Samsung trading and manufacturing group, intends to use the chips in consumer products such as mobile fax-phones and in professional computer equipment such as hard-disk drives and laser-beam printers.

VLSI and International Business Machines plan to use ARM-based chips in a new high speed computing technology that IBM is attempting to establish as an industry standard called Serial Storage Architecture. ARM processor circuitry is

so small it can easily be embedded in the silicon chips VLSI is making for IBM.

ARM said its technology would also be used by companies looking at improving smart card security systems. Smart cards, used in payment, identification and security systems, are no larger than a credit card but contain a complete microprocessor. The ARM chip is said to have more than 100 times the processing power of existing smart card chips, making possible voice recognition.

Bosch-Siemens looks for purchases

By Andrew Baxter

Bosch-Siemens Hansgeräte, Germany's largest producer of white goods, is seeking acquisitions in the UK, France and Italy to strengthen its position in the fiercely competitive DM45bn (\$27bn) European market.

The Munich-based concern, owned jointly by Bosch, the car parts group, and Siemens, the electrical and electronics giant, is Europe's second biggest producer of white goods with a 15 per cent market share. Electrolux of Sweden has 22 per cent, including AEG Hansgeräte which it is buying.

Dr Herbert Werner, president and chief executive of Bosch-Siemens, wanted to raise the group's European market share to between 18 and 19 per cent within five years, through organic growth and acquisitions.

This week, Bosch-Siemens announced a sharp fall in group pre-tax profits from DM346m to DM224.5m. The 1992 figure included a final DM100m subsidy for the company's Berlin washing machine plant.

Group sales fell 5 per cent to DM6.66bn and net profits dropped 35 per cent to DM99.6m. Non-German sales, however, accounted for only 42 per cent of the total, and Dr Werner said: "I think we have to change, we must improve our position in the other big European countries."

Bosch-Siemens has more than 30 per cent of the German market, Europe's largest, and market leadership in Spain, Austria and Greece.

It is considering forming partnerships with manufacturers in the UK, where its Neff and Bosch brands have a high reputation. Bosch-Siemens is also looking at making acquisitions in Italy.

Any takeovers by Bosch-Siemens would continue the process of consolidation in the European white goods industry. Dr Werner said companies with sales of DM1.5bn to DM2bn would find it difficult to survive on their own.

Dr Werner said the group was studying whether to build a white goods plant in Russia and had signed a letter of intent with a Chinese company to produce washing machines in China.

Overall, sales and profits had improved in the first four months of 1994, he said, due mainly to a pick-up in German sales and a 30 per cent rise in UK sales.

This week: Company news

CARLTON COMMUNICATIONS
TV viewers predict a solid profit of \$100m

Wednesday will be a busy day for Mr Michael Green, chairman and chief executive of Carlton Communications, the UK broadcasting and television services group.

At 10am, Carlton will hear whether its little flutter on the National Lottery - it has a stake in one of the eight bidders, The Great British Lottery Company - has hit the jackpot, or not.

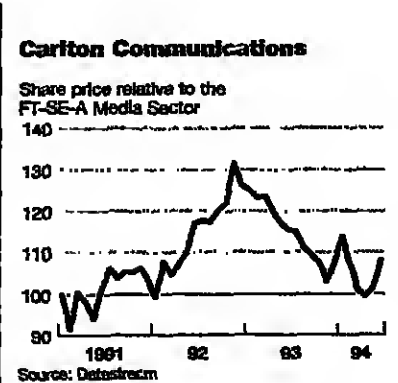
But even if Carlton's lottery ticket is not a winner, it will have some decent results to announce for the half-year to March. Most Carlton watchers are plumping for pre-tax results in the region of £85m-£70m (\$85m-\$105m), compared with £55m last year.

If, as seems likely, the analysts are in the correct range it would indicate a solid performance for Carlton, providing evidence that the climate for advertising is improving and that Carlton's main businesses around the world are pulling out of recession.

The results will, however, contain only around two months' worth of contributions from Central Independent television, the second largest ITV company, which Carlton acquired for about £750m at the turn of the year. The main financial benefit from the government's generous decision to allow the two largest ITV companies to merge will not be seen until the full year.

The period of consolidation following the Central deal is not over. It is considered unlikely that Carlton will unveil anything spectacular on Wednesday. Instead the emphasis will be on steady, solid progress.

Further competition for Carlton in its main UK television markets now seems likely. However, the government is likely next month to approve a new Channel 5 despite the efforts of the ITV companies to head off a potential rival by arguing for the merits of digital television.



BARLOW
S African group set for first unbundled result

South African industrial conglomerate Barlow, formerly Barlow Rand, releases interim results today. These will be its first since unbundling its main operations late last year.

C.G. Smith and Reunert, the two other big companies created in the unbundling, have had a mediocre six months, and Barlow's figures also are unlikely to be good.

Analysts say Barlow's results are difficult to forecast. The pro forma numbers released after the unbundling are no longer a good guide to overall performance because of various sales during the past six months.

Of the group's remaining assets, Barlow's Pretoria Portland Cement subsidiary had an excellent first half. Analysts expect its figures to improve still further this year because of the boom that is likely to follow the new government's reconstruction and development programme.

But the unit's first-half gains are likely to be largely cancelled out by the dismal performance of UK subsidiary J Bibby and sons, which reported pre-tax losses of £12.4m (\$18.6m) for the six months to March 26. The deficit was due to a decision to withdraw from the agricultural feeds business. Trading in Spain and Portugal also remained weak during the period, although since February the company reported a small improvement in the order book level for new equipment.

OTHER COMPANIES
Bad debts threaten Japanese banks

Japanese banks are expected on Thursday to announce a sharp fall in profits for the year to March. This follows aggressive write-offs of their bad debts through the Co-operative Credit Purchasing Company, a bad loan purchasing organisation set up by the banks last year.

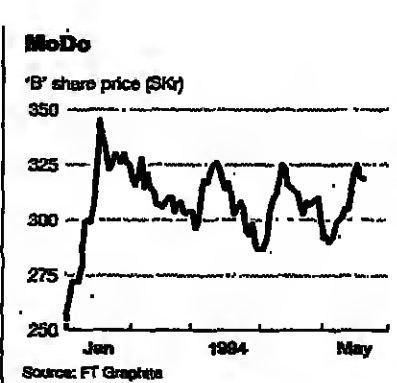
Brokers James Capel in Tokyo predicts that the banks' transfer of bad debts to the CCPC will total ¥2,000bn (\$19bn), with a further ¥1,000bn written off by the banks in straight loan-loss provisions.

■ **British Airways:** The UK airline has a tradition of breaking even in its fourth-quarter, which leaves analysts forecasting that full-year pre-tax profits will be about £200m (\$450m), against £185m.

However, the tone of today's statement may be more important than the headline profit. The stock has been weak since lower-than-expected growth in traffic figures for April, and there are concerns about BA's troubled associate USAir.

■ **Viag:** The transport to energy conglomerate will present its 1993 results on Wednesday, with earnings expected to be about 20 per cent lower than the DM371m (\$220m) reported for the previous year.

Analysts said earnings per share were forecast at about DM16, with the dividend likely to remain unchanged at DM9. The group recently took over Bayernwerk, Germany's third largest utilities group, and with annual turnover of about DM40bn, it is among



Germany's top 10 companies in sales terms

- **MoDo:** The Swedish pulp and paper group will almost certainly return to the black when it announces its first-quarter figures on Thursday. Analysts are expecting profits of up to SKr310m (\$40m) after last year's SKr200m deficit.
- The improvement has been driven by higher pulp and fine paper prices, a better performance at the company's French unit and lower financial costs. MoDo has already indicated that it expects a 1994 profit of more than SKr10m after last year's SKr49m deficit.
- **Cable & Wireless:** Analysts are forecasting annual pre-tax profits of more than £1bn (\$1.5bn), up 27 per cent from £824m, for the UK telecoms group. That would give earnings per share of 22.5p, a 16 per cent increase on last year (19.4p).
- However, better-than-expected results announced last Thursday at Hongkong Telecom, C&W's largest business, may make that view somewhat pessimistic.

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THE BIG FOUR BANKS OF THE NORTH EAST

COMPANIES AND FINANCE

Ennemix takes unusual route to stock market

By Andrew Taylor,
Construction Correspondent

Ennemix, a small east Midlands and East Anglian aggregates company, is today expected to announce plans for one of the most unusual flotations for some time.

The company, which is seeking to raise \$8.7m for new acquisitions and to reduce borrowings, will offer shares in the form of a rights issue to existing stockholders of Anglesey, a publicly quoted North Wales mining group.

Anglesey, which needs cash to pay for preliminary works, is expected to receive about \$800,000 of the new money. Ennemix would take a 15 per cent stake in the mining company.

Imperial Metal Company, of Canada, which previously has provided seed-corn finance for Anglesey, would not take up

its rights but would still be left with 50 per cent of the company through a debt-for-equity swap.

The scheme, which would resolve the problems of a small highly-levered aggregates company trying to float on its own in a difficult stock market and raise much needed cash for Anglesey, has been organised by Guinness Mahon.

The development of Anglesey, which owns the mining rights to 10m-15m tonnes of zinc, lead and copper as well as some gold and silver deposits in Parys Mountain, north Anglesey, has been delayed by a fall in base metal prices. The company needs to raise more funds if it is to continue.

Anglesey, instead of issuing more paper, will be asking its own shareholders to put up this money in return for Ennemix shares.

Nash Sells, a venture capital company which owns 22.5 per cent of Ennemix, plans to raise a further \$1.3m by placing about half its stake with institutions.

Of the total \$10m to be raised, about half will be offered by way of rights to Anglesey shareholders with the remainder of the shares to be placed.

The McLeod family, which currently owns 77 per cent of Ennemix, will not sell any of its shares - reducing its stake to about 25 per cent after the issue. About 82 per cent of Ennemix shares would be left with institutions or Anglesey shareholders.

Ennemix, which owns seven sand and gravel quarries and 17 concrete plants in the east Midlands and East Anglia, is forecasting after-tax profits of \$1.1m this year following last year's \$1.64m loss.

CPL seeks listing later this month

By David Blackwell

Expectations that it can continue to spread the sweet smell of success have spurred CPL, one of only two fragrance and flavour manufacturing companies in the UK, to seek a listing on the London Stock Exchange later this month.

The company's origins go back to a firm of north country soap makers last century. Mr Terry Pickett, chairman, explains that his family first became involved with the industry by inventing fragrances to disguise the smell of soap made from tallow.

CPL, itself, was founded by Mr Pickett and his late brother in 1971 as Contemporary Perfumers Limited. It has grown into a multi-national company with profits last year of \$1.1m on turnover of \$14.7m.

The company is 57 per cent owned by the family, who expect to retain around 40 per cent after the listing, and 34 per cent by Ensign Trust. It is aiming to raise around \$5m net of expenses through a placing with institutions, and is expecting a market capitalisation of \$20m.

Mr Pickett claims the company's products are found in goods used in most homes. The fragrances go into soaps, detergents, fabric conditioners, dishwashing liquids, air fresheners, shampoo and other personal care products, while flavourings are used in almost every manufactured food and drink.

The company operates in two divisions - fragrance and flavouring, which accounts for 60 per cent of sales and aromatic ingredients. It employs 150 people worldwide, including a team of more than 20 perfumers who operate with over 5,000 ingredients.

"Clearly nature is bountiful in supply with a wonderful array of substances," said Mr Pickett. "These are supplemented by aromatic chemicals, which were originally designed to replicate natural fragrances, but many of which are novel."

Credit Lyonnais is sponsor to the issue.

Loss that intensified a war of words

David Blackwell on Seaford's battle with dissident shareholders

The announcement last week of a \$24.2m loss on turnover of \$27.5m in 1993 by Seaford, the Dublin-based transport and distribution company, intensified the war of words between the management and dissident shareholders.

Shareholders in the troubled group have seen its net worth fall from \$51.2m in 1989 to \$11.1m at the end of last year.

The latest losses were "the direct result of the ill-conceived decision to acquire a property development company near the peak of the property market, a decision taken by the board chaired by Mr Wilson," Mr Brian Chilver, the chairman, wrote to shareholders.

He was referring to Mr Tony Wilson, former executive chairman of the group, and the 1989 acquisition of Charterhall Properties, which was sold last year at a loss.

Mr Wilson nurses an ambition to return to the transport and distribution company which he built by acquisition while executive chairman. He claims that he wanted to resign and lead a management buy-out of the transport group when it ventured into the property market, but was urged to stay until the Charterhall deal was complete.

The Charterhall purchase, according to Mr Wilson, was arranged by Mr Dennis Jones, the 1980s entrepreneur. Mr

Seaford paid around \$70m in cash and shares, partly funded by a \$50m rights issue at 150p a share. On Friday, the shares stood at 125p.

Mr Wilson nurses an ambition to return to the transport and distribution company which he built by acquisition while executive chairman. He claims that he wanted to resign and lead a management buy-out of the transport group when it ventured into the property market, but was urged to stay until the Charterhall deal was complete.

He himself did not realise when he joined that the problems were quite so severe. The group did not have the muscle to stay in the property sector in a declining market. One particular site in Finchley, north London, "must have cost \$30m in write-offs over the last four years."

He points out that \$17.5m of the latest loss represents good-

will written off on Charterhall. The purchase was originally based on profits streams, not assets - a move he dismisses as "stupid."

The way is now clear to develop the transport and distribution business, he says, blaming the fall in the division's operating profits from \$1.1m to \$804,000 on the European recession.

He regrets the dissident move, which came out of the blue and led to a private Irish transport company seeking a listing, to withdraw from merger talks last week.

Seaford has survived where many property companies did not, but it is now right back to square one. Mr Chilver, who will be chairman if the dissidents win, says he joined the fray because something had to be done to stop the company spiralling downwards. "They were throwing away the shareholders' money."

Mr Chilver, who became chairman in July 1990, accepts that it is probably true that Mr Wilson was not keen on the foray into property, but in that case he should have resigned at once.

Mr Chilver, who argues that Seaford has maintained its reputation as an efficient transport business throughout the last four turbulent years, predicts: "We should win as long as there is not too much inertia among shareholders."

'We should win as long as there is not too much inertia among shareholders'

cash and shares, partly funded by a \$50m rights issue at 150p a share. On Friday, the shares stood at 125p.

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Pru issues sales staff statement

By Andrew Jack

Prudential Corporation, the UK's largest life insurer, said over the weekend that Lantoro, the life industry's self-regulatory body, had found training and competence of its 9,000 sales staff "generally satisfactory".

The company said that it was still considering a detailed report based on a Lantoro audit, but that any recommendations for change were "minor".

Prudential cited from a letter from the regulator to Mr Mick Newmarch, the chief executive, that Lantoro's findings would not have "any serious effect" on its sales operation.

The company went to the unusual length of issuing a statement to the Stock Exchange on Friday after its share price fell on rumours that its sales staff had been suspended, following a suspension by Norwich Union staff in March.

Lola accelerates growth away from the race track

By John Griffiths

Lola, the British racing car maker, has signed its first aerospace engineering contracts and is embarking on an expansion programme designed to transform it into a public company within the next four years.

Mr Eric Broadley, chairman and founder of the Huntingdon, Cambridgeshire-based company whose single seaters have dominated North America's most prestigious IndyCar championship for much of the past decade, has developed a strategy to triple the company's \$12m a year turnover and take it into mainstream automotive engineering as well as aerospace.

The company employs 160 at its two operating divisions in Huntingdon, but this number is expected to grow as the strategy develops.

Mr Broadley, who owns 75 per cent of Lola Cars, said expansion outside of motor racing would be based on the skills in chassis engineering, aerodynamics and composite plastics technology that Lola

has built up over three successful decades of participation in most senior categories of motor racing except Formula One grand prix.

Lola has signed several aerospace engineering contracts, including the developments of parts for British Aerospace and Westland, the helicopter concern recently acquired by GKN, the engineering and industrial services group.

Mr Broadley regards aerospace as particularly compatible with the racing car industry, in which the UK is the acknowledged world leader.

Aerospace requires high technology, low-volume production in which fast response times during development are important - and which are fundamental to racing car concerns because of the very nature of competition.

Much of Lola's expansion effort is being directed towards the rapidly growing and technology hungry Pacific rim region. Implicit in that is the expectation that Lola will be able to play ahead in technology terms, of the Asia-Pacific "tiger" countries like Korea.

PUBLIC NOTICES

SCOTTISH EQUITABLE POLICYHOLDERS TRUST LIMITED

Notice is hereby given that the first Annual General Meeting of Qualifying Policyholders of Scottish Equitable Policyholders Trust Limited will be held at 28 St Andrew Square, Edinburgh on Thursday 16 June 1994 at 2.30 pm for the following purposes:-

1. To consider the Company's Report.
2. To approve the aggregate ordinary remuneration to be made available to the Directors of the Company.
3. To reappoint the Directors of the Company retiring by rotation at the Meeting, namely:-

- (a) The Rt Hon Lord Younger of Fraxwrick KCVO TD DL
- (b) Barry E Sealey CBE BA
- (c) Charles F Skelton CA

Any Qualifying Policyholder who is entitled to attend and vote is entitled to appoint another person (who need not be a Qualifying Policyholder) as his proxy to attend and vote instead of him. A proxy is entitled to vote but is not entitled to speak except in demand or in a poll. Proxy forms, which can be obtained from the Company Secretary (at the following address), must be deposited at 28 St Andrew Square, Edinburgh before 2.30 pm on Tuesday 14 June.

Every Qualifying Policyholder whose policy, as at the commencement of the Meeting, has been at least one year in force is entitled to attend and vote at the Meeting.

"Qualifying Policyholders" for the purposes of this Meeting comprise any person who was a member of Scottish Equitable Life Assurance Society (the Society) and whose policy, having been transferred from the Society to Scottish Equitable plc, is still in force at the commencement of the Meeting.

Any queries in respect of the qualification of policyholders to attend and vote at the Meeting should be addressed to the Company Secretary (at the address specified below).

By Order of the Board
P H Grace
Managing Director

28 St Andrew Square, Edinburgh EH2 1TF

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CITY INDEX

The Market Leaders in Financial Data - Financial and Foreign Exchange Data. Accounts are normally updated within 72 hours. See our operators prices in the FT on 19th Oct 1993 page 603.

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THE SOUTH AFRICAN BREWERIES LIMITED

Reg. No. 6916025/06
(Incorporated in the Republic of South Africa)
("the Company")

Terms of issue of ordinary shares in lieu of the final ordinary cash dividend

Further to the results and dividend announcement published in the press on 13 May 1994, the Directors have determined the terms of the issue of new fully paid ordinary shares of 20 cents each in the Company in lieu of the final cash dividend as follows:

Terms of the issue
New fully paid ordinary shares in the Company will be issued to ordinary shareholders registered in the books of the Company at the close of business on Friday, 27 May 1994 at a price of R92 per ordinary share in lieu of the final cash dividend, on the basis of 1,280,909 ordinary shares for every 100 ordinary shares held, unless an ordinary shareholder elects in respect of all or part of a shareholding by no later than 15:00 Friday, 24 June 1994 to receive the final cash dividend.

Fractions of ordinary shares will not be issued and shareholders will receive the cash equivalent of such fractions.

Listing
Subject to the approvals of The Johannesburg Stock Exchange ("the JSE") and the London Stock Exchange ("the LSE"), the listing of the new ordinary shares on the JSE and LSE will commence on Thursday, 30 June 1994.

Documentation
A circular containing full details of the share issue, together with an election form, will be posted to shareholders on or about 3 June 1994. Shareholders wishing to elect to receive the final cash dividend will be required to return their completed election forms to the Company's transfer secretaries, to reach them by no later than 15:00 on Friday, 24 June 1994.

Posting of dividend cheques and share certificates
It is expected that dividend cheques and share certificates in respect of the new ordinary shares will be posted to shareholders on or about 30 June 1994.

A further announcement will be made on or about 29 June 1994 reporting on the number of ordinary shareholders who will receive new ordinary shares or the cash dividend, as the case may be.

By order of the Board
A O C Torkelson, Group Secretary
28 May 1994

2 Jan Smuts Avenue
Johannesburg 2001

This advertisement is issued in compliance with the requirements of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("The London Stock Exchange"). It does not constitute an invitation to the public to subscribe for, or purchase, any securities. Application has been made to the London Stock Exchange for the issue of the new ordinary shares on the basis of the election form. The London Stock Exchange has accepted the application and has issued a certificate to that effect. It is emphasized that no application has been made for admission to listing. It is expected that the new ordinary shares will be admitted to listing on the London Stock Exchange on 30 June 1994.

REGAL HOTEL GROUP PLC

(Registered in England and Wales No. 171238)

PROPOSED ACQUISITIONS

the Time Out Hotel, Leicester; the Hillcrest Hotel, Wiltshire

the Hall Carth Hotel, Dorset; and the Cornhill Hotel, Cardiff

and

PLACING AND OPEN OFFER

by Guinness Mahon & Co. Limited

of 624,571,428 new Ordinary Shares

at 174 pence per share

Share capital following the Placing and Open Offer

Authorised

£4,750,000

The principal activity of the Company is the operation of hotels and restaurants and the provision of conference and related leisure facilities.

USM Participations relating to the Company have been approved by the London Stock Exchange and are available during normal business hours on any weekday (Monday and public holidays excepted) from the Company's Administrative Office, London Stock Exchange Tower, 25th Floor, 25 Abchurch Lane, London EC4N 3DF, by collecting only up to and including 29th May, 1994 and during normal business hours (excluding Saturdays) up to and including 4th June, 1994 from:

Guinness Mahon & Co. Limited

21 St. Mary's Hill

LONDON EC3N 3AJ

(a member of The Securities and Futures Authority Limited and the London Stock Exchange)

and at the registered office of the Company in England:

8 Chancery Street, Newbury, Berkshire RG14 5DP

Pool, Hart & Company Limited

45 Throgmorton Street

LONDON EC2N 2EP

(a member of The Securities and Futures Authority Limited and the London Stock Exchange)

23rd May 1994

BankAmerica Corporation

US \$900,000,000

Floating Rate Notes

Due February 1997

For the period from May 23, 1994 to August 23, 1994 the Notes will carry an interest rate of 5% per annum with an interest amount of US \$238.89 per US \$300,000 principal amount of Notes payable on August 23, 1994.

Bank of America NT & SA, London - Agent Bank

£200,000,000

MFC Finance No. 1 PLC

NOTICE OF REDEMPTION

Series 'A' to 'F' Mortgage Backed Floating Rate Notes

Due October 2023

Notice is hereby given that in accordance with Conditions 5(i) of the Prospectus dated 13th October 1989, the Issuer intends to redeem £2,400,000 in aggregate value of the Notes on the respective June 1994 interest payment dates.

By Citibank, N.A. (Issuer Services) 25th May 1994, London

CITIBANK

FIRST BANGKOK CITY BANK LIMITED
acting by and through its Cayman Islands branch

US\$ 110,000,000
Floating Rate Notes Due November 1998

In accordance with the provisions of the Floating Rate Notes, notice is hereby given as follows:

Interest Period: 24.05.94 - 25.11.94

Rate of Interest: 5.5/8% per annum

Coupon Amount: USD 14,453.13 per Note of USD 500,000 each

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US \$900,000,000
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By Citibank, N.A. (Issuer Services) 25th May 1994, London

CITIBANK

COMPANIES AND FINANCE

Japanese chemical groups hit hard

By Paul Abrahams in Tokyo

Results from Japan's largest petrochemical companies for the year to March 31 reflect the crisis facing a sector plagued by sluggish domestic demand, overcapacity, plunging prices and the appreciation of the yen.

News of the sector's dire trading position follow this week's decision by Showa Denko to sell its polystyrene business.

The company, a marginal manufacturer, sold its 30,000 tonnes a year Kawasaki plant to Asahi Chemical, Japan's largest polystyrene manufacturer with capacity of about 333,000 tonnes a year, equivalent to about 25 per cent of the market. The move was the latest in a series of alliances and mergers as the troubled industry restructures.

Mitsubishi Petrochemical, the country's biggest plastics group, reported a loss of

¥8.28bn (\$60m) compared with pre-tax profits last year of ¥8.25bn. The group made an operating loss of ¥13.5bn, the first since 1982. The poor result came despite cost-cutting measures, lower raw material prices, and ¥4bn worth of profits from equity sales.

Turnover fell 12.1 per cent from ¥372bn to ¥326bn, as prices and volumes declined. Earnings per share, which reached ¥2.5 in 1991, fell to a loss per share of ¥9.44. The group, which is scheduled to merge with Mitsubishi Kasei on October 1, cut its dividend from ¥8 per share to ¥4.

Mitsubishi Kasei's pre-tax profits fell 78.8 per cent from ¥9.5bn last year to ¥2.0bn. The group reported its first operating loss in 40 years at ¥467m, and only managed to post positive pre-tax results by selling ¥15.7bn worth of equities. Turnover fell 1.8 per cent, the fourth yearly decline, to ¥956bn. The dividend was

halved to ¥3 per share.

Mr Morihisa Takano, managing director, said this newly merged group would generate pre-tax profits of ¥10bn on sales of ¥85bn during the year to March 1995.

He predicted petrochemicals prices would bottom out during the summer. No decision had been made about the dividend, but the new company could pass it during the current year, he warned.

Pre-tax profits at Mitsui Petrochemical Industries, Japan's biggest polyethylene maker, plunged 75 per cent from ¥9bn to ¥2.28bn on sales down 8.3 per cent at ¥272bn. The company blamed poor demand for the slump which offset the benefits of cost-cutting measures. The dividend is unchanged at ¥6 per share. The group forecast pre-tax profits for the current year marginally up at ¥3bn on turnover of ¥276bn.

Shin-Etsu, one of Japan's

biggest makers of polyvinyl chloride, reported profits down 28.1 per cent from ¥17.5bn to ¥12.8bn. Sales increased 0.2 per cent from ¥225bn to ¥225.8bn. Net profits fell 26.6 per cent to ¥7.08bn, or ¥21.65 per share.

The group maintained the final dividend at ¥3.75, making the full-year payout ¥7.5 per share. Shin-Etsu forecast pre-tax profits for the current year of ¥15.5bn on sales of ¥277bn.

The outlook for the petrochemicals industry remains bleak. The imbalance between supply and demand for ethylene, the basic building block of petrochemicals, is about 2.8m tonnes of ethylene and is set to deteriorate further this year.

A massive 700,000-tonne-a-year ethylene complex owned by Maruzen, Mitsui Petrochemical and Sumitomo Chemical comes on stream later this year and Mitsubishi Petrochemical is also commissioning a new 300,000-tonne-a-year plant this year.

Frontier Airlines in plan to fly again

By Richard Tomkins in New York

Frontier Airlines looks like becoming the first of three defunct US airlines to start flying again under plans drawn up by its former managers.

It is seeking to raise \$8.9m net through a public share offering with the aim of relaunching air services from its former base in Denver, Colorado, this summer.

Last week, another defunct carrier, Eastern Airlines, outlined a plan to emerge from bankruptcy and restart services using 14 aircraft from bases in Atlanta, Indianapolis and Philadelphia, but it has yet to raise the necessary funds.

Meanwhile, a group of investors has bought the rights to the Pan Am trademarks with the aim of resurrecting Pan American World Airways.

The group plans to operate the company as an umbrella organisation for other carriers wanting to use the Pan Am name. The plans, however, are still at an early stage.

Frontier ran into financial troubles in the mid-1980s and went bankrupt in 1986 after an unsuccessful attempt at a rescue by People Express, the no-frills carrier. Shortly afterwards, People Express succumbed to a takeover by Texas Air.

The new Frontier Airlines has been formed by the president and other key executives of the old company.

The company is offering 1.8m ordinary shares at \$4.25 each and 1.8m redeemable warrants at \$0.25 each. Net proceeds of the offer will pay for the airline's launch and for working capital after the start-up.

Correction Greek Banking and Finance Survey

The figures for assets, deposits and loans held by Greece's biggest banks in 1992 in the above survey (May 20) should have been stated in drachmas and not dollars.

Power Corp and Axa in Chinese insurance venture

By Robert Gibbens in Montreal

Great-West Life, one of Power Corporation of Canada's key subsidiaries, is linking with Axa, a leading French insurer, to establish an insurance arm in China.

The Canadian company's move, which could involve investment from a Chinese partner, follows a Chinese government policy change allowing foreign companies into the financial services sector, according to Mr Paul Desmarais, who controls Power Corp.

Great-West is one of North America's leading group life and health insurers.

Mr Desmarais, who first went to China in 1979 and already has several joint

investments with China International Trust & Investment (CITIC), said the government has also asked Power Corp to plan a cable TV system for Beijing.

Power Corp is negotiating with several potential international partners to set the system up, he said, but refused to identify them.

Power Corp has joint ventures in China in property, electric power and gold exploration (with American Barrick Resources), with international and Chinese partners. It dropped a pulp and paper project two years ago because infrastructure was lacking.

Mr Desmarais holds joint control of Pargesa in Europe with the Belgian Frere family.

Pargesa controls Petrofina, Tractebel and other European industrial and communications interests.

Besides Great-West, he controls Investors Group, Canada's biggest mutual fund (unit trust) distributor, a communications group, 18 per cent of Southam, Canada's biggest newspaper chain, and 1 per cent of Time Warner.

Mr Desmarais, speaking after the annual meeting, said Power Corp had cash resources of nearly US\$2bn and very little debt.

Power Corp's first-quarter profit was C\$41.1m (US\$28.5m), or 36 cents a share, up 55 per cent from a year earlier, on revenues of C\$1.6bn, little changed.

NEWS DIGEST Samsung in Japanese purchase

Samsung Electronics, South Korea's largest consumer electronics company, has bought 51 per cent of Lux, the Japanese audio company, from Alpine Electronics for ¥2bn (\$15m), writes John Burton in Seoul.

It is the first time a Korean company has taken control of a listed Japanese concern. Lux, which was established in 1925, has encountered financial difficulties because of the high yen.

Under its agreement with Samsung, Alpine Electronics also agreed to pay ¥2.5m of Lux's ¥2.7m total debt.

Samsung said it acquired Lux to gain access to advanced digital audio technology that the Japanese company has developed. Lux's main business is the production of amplifier equipment and components, which are sold under the name Luxman.

Portuguese bank ahead so far

Caixa Geral de Depósitos, Portugal's largest bank, registered a 4.9 per cent increase in net income during the first quarter

of 1994 to E€10.7bn (\$22.8m), compared with E€10.2bn during the same period last year.

Net assets grew by 17.5 per cent to E€4,494bn and cash flow by 2.5 per cent to E€26.6bn, writes Peter Wise in Lisbon.

CGD, a state-owned bank that focuses on mortgage lending and savings instruments, attributed the growth largely to an increase in deposits.

Total deposits rose 12.4 per cent to E€3,177bn over the 12 months to March. Loans grew 6.8 per cent to E€1,804bn. House-purchase lending was the fastest-growing credit category, rising 9.3 per cent to E€1,074.2bn.

Shell Canada sells mothballed refinery

Shell Canada, a subsidiary of the Royal Dutch Shell group, has sold a mothballed refinery near Calgary to Aban Loyd Chiles Offshore, an oil products company based in Madras, India, writes Bernard Simon in Toronto.

The refinery, which has a capacity of 30,000 barrels of oil a day, will be dismantled and shipped to India over the next two years. Terms of the sale have not been disclosed.

The refinery, which is near the town of Babzac, Alberta, was built in 1962, but has been idle for the past two years. It was acquired by Shell last year as part of its purchase of a

western Canadian oil production and distribution company.

Shell Canada shipped a similar refinery to China in 1987.

Alcan Aluminium buys sheet maker

Alcan Aluminium has bought Leichtmetallwerk Nachterstedt, an aluminium sheet business in former East Germany, from the Treubhandlung, writes Robert Gibbens in Montreal.

The plant will be restructured to make automotive sheet and building and industrial sheet products.

It will become a finishing plant for Alcan's joint venture rolling mills in West Germany and will serve emerging east European markets, Alcan said.

Setback at Toray

Toray Industries, the leading Japanese synthetic fibre maker, posted its second consecutive fall in sales and pre-tax profits due to pressure from low south-east Asian imports, writes Emiko Terazono in Tokyo.

For the 12 months to March, the company posted a 26.4 per cent fall in non-consolidated pre-tax profits from the previous year to ¥36.5bn on a 3.8 per cent decline in sales to ¥389.2bn. After-tax profits fell 24.1 per cent to ¥18.5bn.

Advance by Rothmans Malaysia

By Kieran Cooke in Kuala Lumpur

Rothmans (Malaysia) has announced pre-tax profits of M\$402m (US\$155m) for the year ending March 31 1994. The figure represents a 15.7 per cent rise over the previous year.

Rothmans' Malaysian unit is the most profitable segment of the British tobacco group's operations in the east Asia region.

Earlier this year Rothmans announced plans to merge its units in the region to give the group the financial muscle to launch a strong sales push in China and Japan.

However, the plans were abandoned after shareholders in the unit, dominated by the Malaysian government's investment company, said that a merger could siphon funds out of Malaysia and dilute local control of the company's operations.

Turnover at Rothmans (Malaysia) in 1993-94 increased by 18.3 per cent to M\$1.39bn. The company has recommended a final gross dividend of 40 cents per share.

Hang Seng issues HK CDs

By Louise Lucas in Hong Kong

Hang Seng Bank, the Hong Kong banking subsidiary of HSBC, has tapped the capital markets for up to HK\$2bn with the launch of the colony's biggest certificate of deposit issue by a domestic bank.

This three-year floating-rate CDs, arranged by HSBC Markets (formerly Wardley Capital), also represent the lowest cost of funding yet seen by a Hong Kong bank, reflecting Hang Seng's solid and cash-rich balance sheet. It is initially seeking HK\$1.2bn, and the all-in borrowing cost for co-

managers is around 46 to 50 basis points above the Hong Kong inter-bank offered rate (Hibor).

Hang Seng, although second only to Hongkong Bank in size, is the last entrant into the market. Last year Hongkong Bank raised \$8bn through 10-year subordinated collateralised floating-rate notes. Bank of East Asia and Shanghai Commercial Bank, both past issuers, borrowed at some 65 to 70 basis points over Hibor.

Mr Chung Chun-tung, general manager of the bank, said it was prompted by a changing attitude and a move to partici-

pate in all aspects of banking. Hang Seng has traditionally trod a very conservative path, which has been partially responsible for its low loan to deposit ratio of 42 per cent.

However, it also highlights a desire to play a role in the colony's infrastructure projects: money raised through the CDs will put Hang Seng in a better position to exploit these opportunities, said Mr Chung.

The offer, which will be open for two weeks, is expected to appeal to foreign banks seeking an exposure to the Hong Kong market and, to a lesser extent, institutional investors.

Sharp rise in earnings for Ricoh

By Emiko Terazono in Tokyo

Ricoh, the Japanese office automation and information equipment maker, posted a sharp rise in profits thanks to cuts in sales costs as a result of its restructuring programme.

The company reported a 25.5 per cent rise in non-consolidated pre-tax profits for the year to March to ¥14.6bn (\$140m). Sales fell 8.4 per cent to ¥389.8bn, but operating profits rose by 1.9 per cent to ¥8.5bn.

and after-tax profits by 44.5 per cent to ¥7.2bn.

Sales of copier machines fell 2.2 per cent to ¥386.3bn, while information equipment declined 15.2 per cent to ¥144.8bn. Domestic sales declined 4.2 per cent to ¥450.2bn and exports dropped 19.4 per cent to ¥146.6bn.

For the full year to next March, the company expects pre-tax profits to rise by 12.1 per cent to ¥16.5bn and sales by 8.5 per cent to ¥416bn.

● Nikon, the camera and semiconductor manufacturing equipment maker, returned to the black due to a recovery in the international semiconductor market.

The company posted profits of ¥1.1bn, against pre-tax losses of ¥2.3bn a year ago, and after-tax profits up 139.7 per cent to ¥236m. Sales fell by 1.9 per cent to ¥201bn with a 23.7 per cent fall in cameras offset by a 40.6 per cent rise in semiconductor equipment.

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FINANCIAL TIMES

MARKETS

THIS WEEK

Global Investor / Martin Dickson in New York

The fundamental things apply



enjoyable summer rally?

Having endured a terrifying spring ride on a roller coaster, can global bond and stock markets now look forward to an enjoyable summer rally?

That might seem overly optimistic at the start of a week when markets on both sides of the Atlantic remain jittery, and when poor German money supply figures could put additional pressure on the dollar. A stronger dollar seems essential for a sustained rally in the US bond market, which in turn is driving global sentiment in fixed income and equity markets.

Still, the Federal Reserve's firm tightening action last week, coupled with a statement implying that it will not raise rates for some time to come, has prompted a modest rally in US stocks and bonds and gone some way to helping sentiment in Europe.

The rally, and more recent technical signs of base-forming, suggest that markets may have come to terms with the initial shock of the turn in the US interest rate cycle; the accompanying liquidity problems which exaggerated the three-month correction; and concern that the Fed was not sufficiently tough on inflation. More fundamental factors may now start reasserting themselves.

The US now faces two crucial questions: can the dollar rally? And is the Fed's action sufficient to slow the economy to a more sustainable 2.5 to 3 per cent growth rate, with inflation ticking up at 3 to 3.5 per cent, extending the current expansion into 1996-97?

On both scores, the signals are likely to be confused for some time. In the short term, that may prevent the long bond yield getting out of a trading range of 7.25 to 7.50,

which implies a need for further Fed action later in the year to slow growth. But if this benign environment does materialise, the yield curve could flatten dramatically in the second half, with the long bond staging a powerful rally to as low as 6.5 per cent. History, after all, suggests that long-dated US bonds traditionally yield some 3 per cent above the rate of inflation.

As for the dollar, the market's swing from optimism about the currency three months ago (Fed tightening good) to the current fashionable pessimism (trade and money flows bad) may be overdone. Figures last week underline that the US trade gap is mainly with Japan, and the recent resumption of US-Japan trade talks, and optimistic weekend noises about progress, might help the dollar in the short-term. Japanese economic recovery, though some way off, should ameliorate the problem over the longer term.

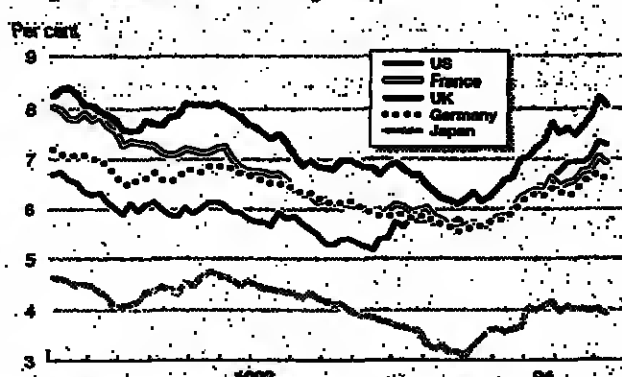
If there is a strong second half rally in US Treasuries, it may be hard for European markets to match. Germany and the continental block pegged to its interest rate structure do not look particularly attractive on a six-month view, with the German economy showing signs of recovering more rapidly than expected.

It is not surprising, then, that last week should have seen considerable switching out of bonds into US Treasuries, gilts and French OATs, though the narrowing bond/OATs spread could be reversed later in the year as the market faces a trade off between heightened political risk (the 1995 French Presidential election) and continued easing by the Bank of France.

US cyclical

The current stage of the disjointed global recovery -

10 year Benchmark bond yields



Source: Datastream

Total return in local currency to 10/2/94

	US	Japan	France	UK	Germany	Italy
Cash	0.08	0.04	0.10	0.11	0.14	0.08
Week	0.33	0.19	0.47	0.51	0.57	0.43
Month	3.55	3.31	6.69	6.99	7.19	6.00
Bonds 3-6 year						
Week	1.70	0.30	0.24	0.77	0.40	1.12
Month	0.95	1.22	0.91	1.28	0.77	0.94
Year	1.10	7.89	7.94	8.39	13.05	6.92
Bonds 7-10 year						
Week	2.71	0.96	1.19	1.98	0.58	2.12
Month	1.47	2.47	1.59	1.96	0.32	0.98
Year	0.25	11.94	7.88	8.59	24.57	7.72
Equities						
Week	3.0	-0.5	0.1	-0.3	-0.1	-0.5
Month	3.4	0.0	3.6	1.3	2.8	-0.2
Year	4.5	4.4	38.5	25.0	42.7	18.1

Source: Citicorp & Citicorp International Securities. The FT-actuarial World Index was last revised by The Financial Times, 10/2/94.

strong growth in the US, Europe showing the first signs of following the American pattern of an initially tentative revival - argues for a strong exposure to leading US blue-chip cyclical and technology stocks with a worldwide spread of interests and a record of big efficiency improvements over the past few years. If the US really has recovered its global competitive edge, the profitability of these companies should powerfully reflect this. Now may be a

good time to pick up bargains, since cyclical have suffered particularly badly in the market correction of the past few months.

Chrysler, for example, is selling on a prospective 1995 price/earnings ratio of just 5.5 despite record first quarter profits and last week's boost to its dividend. Ford and General Motors are on a price of 6. The market is worried that the boom in US vehicle sales may peak next year, though the car companies themselves are looking

to 1996-97.

This could continue to hold back Chrysler, which has virtually no foreign production, but Ford and GM will benefit strongly from a reviving Europe.

Other cyclical and technology blue-chips with strong earnings momentum include Caterpillar, shares in which have been depressed by a still spluttering industrial dispute, and AT&T, winner of a huge contract last week from Bell Atlantic which puts its hardware arm in pole position to supply America's multi-media revolution.

Brazil

Emerging Latin American equity markets have been given a modest fillip by the Fed's tightening, but last week's sharp rise in Brazil was due as much to a reappraisal of domestic political risk.

The market has slid over the past few months on fears that left-winger Luiz Inacio Lula da Silva will win October's presidential election, rather than former economics minister Fernando Henrique Cardoso, who is committed to open the economy further and keep a cap on inflation.

Da Silva is way ahead in the polls, but the market has been buoyed by two events last week which should help Cardoso narrow the gap: the withdrawal from the race of former president Jose Sarney, who would have siphoned away votes, and passage by congress of measures to curb run-away inflation, notably the introduction of a new currency on July 1.

If this slashes inflation to single digits, as economists hope, Cardoso should benefit.

All this has encouraged analyst Tamsin Hobday of Barings to go marginally overweight on Brazil in her model portfolio, but as she points out: "There's still huge risk there."

Economic Eye / Martin Wolf

Risks in making false analogies

"So let's start telling the truth: competitiveness is a meaningless word when applied to national economies. And the obsession with competitiveness is both wrong and dangerous." The author of the quote, Paul Krugman of MIT, is a proponent of "strategic trade theory", sometimes used to justify the Clinton administration's interventionist industrial and trade policies. For this reason, his robust assault on half-baked notions of competitiveness is most welcome.

In the same article, Prof. Krugman notes that his Magalanes and Robert Reich, both important members of the Clinton administration, once argued that "our standard of living can only rise if capital and labour increasingly flow to industries with high value-added per worker". The absurd implications of such a rule of thumb are shown in the chart.

In the case of international trade, people are readily attracted by two false analogies. The most malign is the view that trade is war. Larry Summers, undersecretary for international affairs at the US treasury, argued last week that "some would have the US and other industrial democracies... pursue policies directed at containing threats posed by foreign commercial powers in an effort to preserve something called economic security. In my view this is a profoundly misguided vision. It fails to recognise the fundamental difference between prosperity and power. Power can be gained only at someone else's expense. Prosperity can be shared."

The second false analogy is the belief that trade is similar

Value added per worker, 1988

	1988	1990	1992	1994
Chrysler	280	280	280	280
General Motors	280	280	280	280
Ford	280	280	280	280
AT&T	280	280	280	280
Caterpillar	280	280	280	280
US Average	280	280	280	280

Source: Datastream

to inter-firm competition. But countries, unlike firms, cannot go bankrupt: the bulk of the economic transactions of almost all countries are internal, and, most important, relations between trading partners are mutually beneficial, being more like those between suppliers and their customers than among competitors.

Various meanings can still be given to the idea of international competition.

● New, or lower cost, suppliers of goods and services competitive with a country's exports may emerge, imposing terms of trade losses (reductions in the prices of exports relative to imports).

● Regulatory and fiscal regimes may be forced to compete for flows of mobile factors of production, particularly capital.

● Countries may be subjected to yardstick competition, namely, international comparisons of performance.

● Internationally exposed segments of an economy may fare particularly poorly.

● The effects of imports on wages may look malign.

None of these is much like inter-firm competition. The closest to it is the possible effect on the terms of trade. But this, notes Prof. Krugman, has been insignificant for industrial countries (though that has not been true

for commodity exporters).

The salient feature of the last two concerns is what is happening to internal relative prices. The competitiveness of internationally exposed industries, for example, is largely determined by the real product wage - the cost of labour, adjusted for productivity, relative to the price of output. Similarly, if trade lowers the wages of the unskilled, it raises those of the skilled.

Mr Summers asserts that "notwithstanding Paul Krugman, competitiveness is important. People who talk about competitiveness want to see America produce more, better products at lower cost, and sell them into more rapidly growing and more open markets. What is wrong with that? Nothing at all is wrong with it, except that he is talking about overall economic performance. Prof. Krugman is right to complain about this habit of confusing performance with competitiveness. It is bad analysis, likely also to lead to bad policy, with foreigners blamed for domestic problems."

Trade liberalisation can improve performance, a point Prof. Krugman should have emphasised. All the same, he is right to insist that international commerce is quite unlike inter-firm competition. Analogies can be highly misleading. Phenomena have to be analysed, instead, for what they are.

*Paul Krugman, "Competitiveness: a Dangerous Obsession", *Foreign Affairs*, March 1994. *Laurence Summers, "Shared Prosperity and the New International Economic Order", speech before the Institute of International Economics, May 20 1994.

COMMODITY MARKET REPORT

Richard Mooney

Unloading coffee stocks

Representatives of coffee-producing countries accounting for more than 90 per cent of world output gathered in London today for a two-day meeting on ways of releasing up to 2.5m bags (60kg each) of beans stored under their export retention scheme.

Last October the producers began stockpiling amounts equal to 20 per cent of exports in an attempt to revive sagging prices. Thanks to the price surge since then, at first encouraged by the scheme, but subsequently fuelled by a genuine supply shortage, retention has been suspended for both the chiefly Latin American arabica beans and the coarser robustas that mostly come from Africa. And last month trigger prices were passed for the release of retention stocks of both types of beans.

WEEKLY PRICE CHANGES

	Latest price	Change on week ago	Year ago	High	Low
Gold per troy oz.	\$384.20	+3.85	\$375.15	\$396.50	\$369.50
Silver per troy oz.	373.50p	+12.00	295.50p	394.50p	335.50p
Aluminium 99.7% (cash)	\$1341.5	+18.0	\$1120.0	\$1325.50	\$1107.50
Copper Grade A (cash)	\$2223.5	+9.5	\$1950.0	\$2191.50	\$1731.50
Lead (cash)	\$477.5	-4.5	\$255.75	\$510.50	\$245.0
Nickel (cash)	\$6990.0	+100.0	\$6982.5	\$8230	\$5210.0
Zinc (cash)	\$985.0	+5.0	\$914	\$1014	\$892.5
2% (cash)	\$5550.0	+45.0	\$4500.0	\$5950.0	\$4730.0
Cocoa Futures Jul	\$247	-1.0	\$264	\$268	\$238
Coffee Futures Jul	\$2184	+227	\$2047	\$2247	\$1715
Soybean Futures Jul	\$292.2	+0.70	\$289.2	\$299.7	\$280.0
Wheat Futures Sep	\$38.25	+0.85	\$108.1	\$37.40	\$32.65
Wheat Futures Jun	\$114.25	+1.20	\$138.5	\$117.60	\$37.80
Cotton Outlook A Index	\$5.40	+0.70	\$5.25	\$5.40	\$2.45
West 844 Sugar	\$29.0	+8	\$27.0	\$29.0	\$24.0
Oil (Brent Blend)	\$16.405p	+0.40	\$14.42	\$15.595	\$13.16

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With prices at five-year highs the task of agreeing on release arrangements will be less onerous than it might have been, but the producers will still be anxious to ensure that the process does not damage the new-found buoyancy.

verdict on international gold market trends in the first quarter of 1994.

Its views are unlikely to be much different from those of Gold Fields Minerals Services, the consultancy organisation, which, when launching its influential annual gold market survey two weeks ago, suggested that the "gold gap" - between newly-mined gold plus scrap returned to the market on the supply side, and fabrication demand and bar hoarding on the other - had narrowed from an unprecedented 700 tonnes in the first quarter of last year to 300 tonnes in the first three months of 1994. To fill that gap either gold had to be released by holders, particularly the central banks that own so much of it, or prices must go up.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	US Dollar Index	%chg Daily 12/1/93	FRIDAY MAY 20 1994						Local Currency Daily 12/1/93	Gross Yield %	THURSDAY MAY 19 1994						DOLLAR INDEX		
			Point	Yen	DM	Index	Local 12/1/93	Yen			DM	Index	Local Currency 12/1/93	High	2 week Low	2 week Low	Year Low		
																		Point	Yen
Australia (69)	173.29	5.0	172.05	115.09	149.97	160.05	-2.1	3.42	174.28	171.37	114.85	149.97	150.10	130.10	134.72				
Austria (17)	180.04	-2.7	178.78	118.26	164.09	158.94	-7.8	1.06	178.35	175.37	117.32	183.47	159.38	185.41	140.14	144.03			
Belgium (42)	178.58	8.8	173.38	115.87	151.11	147.23	-1.7	3.73	174.27	171.05	114.83	180.21	146.87	176.57	141.22	147.42			
Canada (108)	131.42	2.2	129.94	88.32	135.48	131.00	0.6	2.67	130.92	128.72	112.65	130.41	145.51	145.51	130.41	145.51			
Denmark (33)	256.59	3.5	251.89	108.49	215.50	224.93	-1.7	1.31	253.69	249.44	166.68	218.29	223.53	275.79	207.29	221.72			
Finland (23)	155.98	28.6	153.16	102.45	133.50	176.96	17.5	0.53	164.94	162.34	101.92	133.92	175.86	152.72	95.54	97.80			
France (99)	177.11	0.7	173.91	116.33	159.19	156.40	-4.0	2.88	176.98	173.99	115.40	152.25	157.34	155.37	149.50	151.92			
Germany (99)	162.54	1.5	161.54	117.27	149.25	154.78	-1.8	1.88	164.25	162.24	115.18	145.45	155.16	155.16	132.39	137.39			
Hong Kong (66)	394.61	-18.4	387.47	259.19	337.75	381.37	-18.4	2.72	384.85	378.21	253.03	330.99	381.49	508.59	271.42	292.03			
Ireland (14)	188.89	2.4	186.28	124.89	162.38	176.45	-4.1	3.38	187.98	184.81	123.64	161.74	176.74	209.28	158.98	158.97			
Italy (89)	141.16	9.9	139.16	81.49	114.16	124.16	-2.4	1.41	141.16	139.16	81.49	114.16	124.16	124.16	81.49	114.16			
Japan (468)	155.55	21.8	155.55	104.14	135.70	164.14	13.4	0.77	157.20	154.76	103.93	135.43	165.91	184.94	142.87				
Malaysia (6)	478.15	-10.2	469.51	314.07	408.26	470.83	-22.3	1.40	478.83	469.83	313.67	410.21	478.47	612.53	312.51	343.03			
Mexico (19)	2028.47	-13.8	2021.24	1332.08	1701.82	1749.87	-7.9	1.04	2033.08	1999.00	1337.08	1749.87	1749.87	2047.08	1451.17	1514.71			
Netherlands (9)	203.91	2.4	200.29	133.84	174.39	171.87	-2.5	9.27	203.39	201.85	133.11	173.74	174.14	207.43	164.14	164.14			
New Zealand (14)	69.30	2.0	68.04	45.52	58.31	62.70	-2.7	3.81	68.94	67.79	45.35	58.32	62.48	77.59	48.57	48.00			
Norway (23)	202.08	12.8	198.02	128.13	173.47	186.10	6.8	1.89	200.58	197.80	127.89	172.87	196.07	206.42	150.61	159.00			
Singapore (4)	252.77	-4.0	248.40	221.71	301.94	290.05	-8.5	1.52	253.50	247.50	223.54	304.18	248.98	278.92	242.48	254.39			
South Africa (59)	226.10	3.0	224.41	170.16	221.76	278.51	11.3	2.22	227.84	223.92	169.61	221.80	277.83	280.29	175.93	200.88			
Spain (42)	146.99	7.8	147.28	98.52	128.37	154.58	2.4	3.88	147.63	145.45	97.31	127.29	152.85	155.79	116.39	128.21			
Sweden (59)	229.72	17.0	225.67	150.89	196.82	250.78	7.6	1.53	231.25	227.48	162.18	199.07	233.38	231.38	163.85	177.18			
Switzerland (47)	159.03	-0.3	158.74	104.35	136.82	130.05	-4.7	1.76	159.58	158.90	104.30	136.45	138.61	176.50	122.57	123.14			
United Kingdom (205)	193.31	-5.7	189.82	126.98	165.48	189.82	-7.6	1.52	192.91	189.88	126.90	165.00	189.88	210.99	122.99	123.14			
USA (19)	158.43	-2.4	158.74	104.35	136.82	130.05	-4.7	2.28	158.95	158.21	104.35	136.82	130.05	158.43	104.35	136.82			
EUROPE (24)	217.94	2.1	216.83	142.94	142.16	190.93	-0.7	2.89	217.88	216.74	142.90	147.65	190.93	190.93	142.90	145.88			
Norway (119)	217.45	14.7	212.52	142.83	166.11	215.97	6.7	1.59	217.26	213.78	142.80	147.65	216.27	220.60	155.82	167.89			
Pacific Basin (76)	169.23	16.5	164.56	110.04	143.28	114.48	0.2	1.06	168.10	165.40	109.92	143.00	113.70	180.00	134.76	146.22			
Europe-Pacific (47)	167.81	8.1	166.15	111.14	144.82	132.58	3.2	1.85	169.10	165.48	110.71	144.92	132.62	170.78	141.79	147.09			
Asia-Pacific (23)	167.81	-2.3	167.59	110.59	155.84	167.81	-0.2	2.87	168.51	167.81	110.59	155.84	167.81	175.57	160.71	167.81			
Europe Ex. UK (19)	159.35	8.0	158.65	102.02	128.37	154.58	2.4	3.88	159.35	158.65	102.02	128.37	154.58	159.35	102.02	128.37			
Pacific Ex. Japan (28)	255.16	-11.0	250.57	107.81	218.41	223.73	-14.0	2.59	252.16	247.36	105.89	217.00	227.03	282.18	182.98	186.98			
World Ex. US (1697)	170.12	8.2	167.10	111.77	145.85	135.85	3.1	1.85	169.28	166.82	111.33	145.83	135.41	172.51	142.94	147.41			
World Ex. Japan (17)	170.12	5.2	168.98	113.21	147.63	147.94	3.1	2.05	171.97	169.08	113.00	147.92	147.41	175.88	142.94	169.08			
World Ex. So. Af. (217)	173.73	4.1	171.59	107.81	145.85	135.85	3.1	2.22	174.55	173.73	107.81	145.85	135.85	173.73	107.81	145.85			
World Ex. Japan (1707)	184.61	-1.7	181.97	121.28	155.01	178.80	-3.3	2.82	184.61	181.97	121.27	155.78	178.80	184.61	121.27	155.78			
The World Index (178)	174.22	4.3	171.07	114.43	148.12	151.47	3.1	2.22	173.77	170.88	114.31	148.52	152.28	179.97	152	165.67			

WORLD BOND MARKETS: This Week

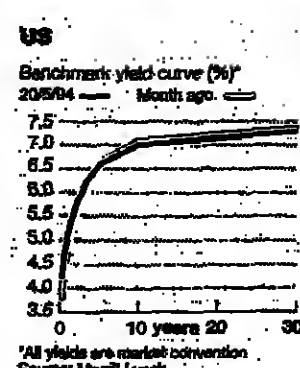
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Patrick Harverson

The bond market looks as if it may be in for something it has not experienced for a long time: a quiet week.

Last week, the market first agonised over whether the Federal Reserve would put up interest rates, then celebrated when the central bank did just that. By the week's end, the yield on the long bond had dropped from 7.5 per cent to below 7.3 per cent, and the mood of the market was upbeat. There was even talk that the 30-year yield might dip below 7 per cent within a few weeks if recent increases in interest rates begin to take their toll on the pace of economic activity.

In contrast, this week should allow traders and investors' nerves to settle. There is little in the way of important economic news due to be released until Wednesday, when the April durable goods report is scheduled for publication. Brokerage house Donaldson, Lufkin & Jenrette forecasts that durable goods



rose 1 per cent last month, which looks strong but is unlikely to overly worry the market because the data is notoriously unreliable. The only other release of note will be Friday's update of the first-quarter gross domestic product estimate. GDP was originally estimated to have grown by 2.6 per cent but a downward revision in the number is expected. DJL predicts revised GDP growth of 2 per cent.

LONDON

Philip Coggan

Gilts have rallied over the past couple of weeks, helped by a general upturn in the international bond market, and there is little on the horizon this week to suggest a setback is in the offing.

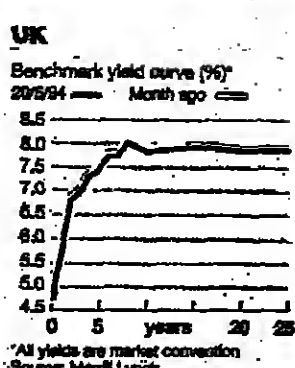
The central event of the week will be the convertible auction on Wednesday (see article below). According to Mr Ian Shepherdson of HSBC Greenwell, the issue is likely to have some appeal to domestic investors.

There are few important economic statistics due, although the Confederation of British Industry's survey, published on Friday, may give further indications of the impact of April's tax increases on the recovery.

Last week's figures provided some contradictory evidence on inflation, with the rise in average earnings outweighing the good news of a fall in the annual rate of underlying inflation. The market sees the earnings figures as an indicator of future inflationary problems, while the retail prices index merely reflects the past.

With little on the domestic agenda to affect the market, the main danger may come from the US first-quarter gross domestic product figures on Friday.

Too strong a GDP number would inevitably upset the Treasury bond market, with the normal knock-on effect on gilts.



ever, although of course these cuts were too late to influence the April data. If the M3 data dampens investors' enthusiasm for bonds, this may be revived by a good inflation figure for May.

Due to be announced at the end of the week, the figure could be down to an annual rate of below 3 per cent at last. Coupled with a strong D-Mark, this could revive hopes of further rate cuts.

But the new convertible issue may be a sign that the Bank of England is beginning to find it difficult to attract demand for short-dated gilts.

Perhaps the biggest problem the new issue will face is the difficulty investors may have in deciding on a price. When details of the auction were announced last week, they were greeted with stunned silence as analysts tried to make sense of it. "There is no other stock like it in the market," analysts complained.

Whether the new gilt will find favour with the market will become apparent on Wednesday, although the debate it has provoked may not end there.

FRANKFURT

David Waller

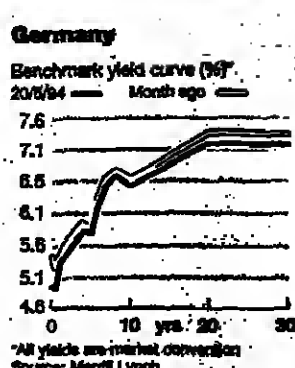
Investors are likely to return from today's public holiday to be confronted with the figures for German M3 money supply growth in April. Due early this week, the data could unsettle the market.

Expectations had been that the annualised, seasonally adjusted rate of growth would sink to 13 per cent in April after 15.4 per cent in the previous month.

But an article in last Friday's Frankfurter Allgemeine newspaper suggested that the figure may prove to be above the March outcome.

If this proves to be the case, the Bundesbank's chances of hitting its 4 to 6 per cent target for monetary growth for the year as a whole will recede still further.

And the Bundesbank's new policy - introduced this month with the half percentage point cut in the discount and Lombard rates - of using interest rate cuts to reduce M3 growth will look more of a gamble than



calendar year and a 1.5 per cent fall for the April to June quarter.

Although such negative sentiment towards the economy has recently been factored into bond prices, further evidence of a delayed recovery is likely to support confidence among bond market participants.

Meanwhile the consumer price index to be released Friday should reflect subdued inflationary pressures.

Such concerns are expected to be confirmed this week, with industrial production figures indicating a fall in output in April, and pointing to a decline in the second quarter. Retail sales figures for April and March household spending are expected to confirm that consumer confidence remains weak.

James Capel in Tokyo forecasts a 2.5 per cent decline in industrial production for the first quarter of the current

TOKYO

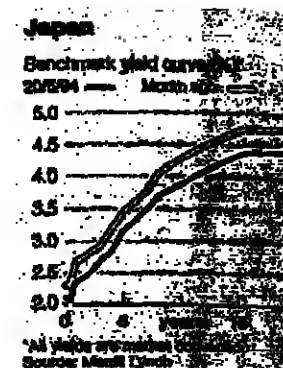
Emiko Terazono

Japanese government bond yields, which fell 13 basis points last week, are likely to decline further this week due to the Bank of Japan's continued easy stance on short-term money market rates.

The central bank still remains cautious on the economy and the negative effects of a higher yen on corporate profits. The bank said last week that economic conditions had stopped deteriorating but there was no evidence yet of a recovery.

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Capital & Credit / Graham Bowley

Revived convertible gilt faces the acid test

On Wednesday, the Bank of England will auction a new convertible government bond, the first since 1987. The revival of this special breed of gilt has proved to be controversial. Welcomed by some, it has had a frosty reception from others, who are frustrated by what they see as the government's persistent refusal to turn to conventional long-dated gilts for its funding needs.

A convertible gilt is a short-dated bond which can be exchanged for a specified long-dated gilt at a fixed price some time in the future. The conversion dates occur at six-monthly intervals and the terms worsen slightly at each date.

The convertible gilts auctioned by the Bank of England on Wednesday, worth a total of £2bn, will have a coupon of 7.0 per cent, coming to maturity in August 1997. Investors will be able to convert it into 9.0 per cent 2014 bonds, for the first time on August 6.

The attraction of such an investment vehicle for lenders is that it allows them to participate in more than one area of the gilt market. It therefore

provides a useful hedge when yields, particularly at the long end, are volatile.

If, for example, yields fall, then investors may exercise their option of converting to the longer bond and so benefit from the rising market. If on the other hand yields rise, they will be protected by only being exposed to the fall in value of the short-dated bond.

This special property of the new gilt may be particularly attractive to investors now, given the recent financial market turbulence. Institutions may be worried about committing themselves to long gilts but are also afraid of missing out if bond markets do recover sharply once the threat of further rises in US interest rates has receded.

The appeal for the borrower, in this case the government, is that it does not have to commit itself to the high yields currently being seen on long-dated gilts. Issuing a bond at such yields would cost the government more in terms of interest payments than a short-dated gilt.

Bond markets have been extremely volatile since February, when the US Federal Reserve raised short-term interest rates in a pre-emptive strike on inflation. Investors took flight, sensing a turning point in world rates, and bond prices plummeted. The UK market has been one of the worst affected: gilt yields have climbed 1½ percentage points since February.

But the Bank of England believes the bond market reaction has been exaggerated. It is much more optimistic about inflation and prefers to wait until long-term yields come down before issuing long-dated gilts.

Some investors, however, doubt whether funding at the short-end still has many advantages over selling long-dated bonds and they think such a policy may in fact be damaging to the government's funding programme.

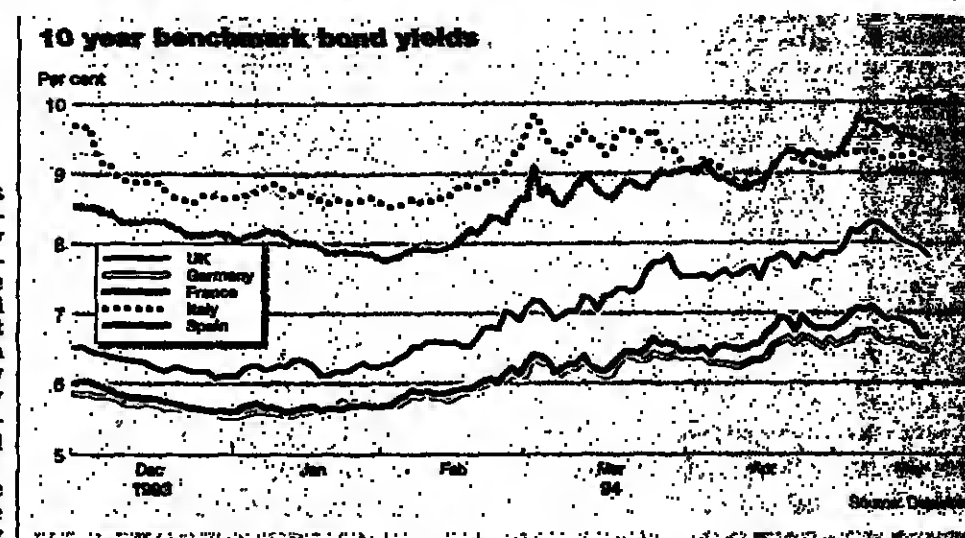
"The Bank's policy is distorting the yield curve," according to Mr Michael Saunders, UK economist at American bank Salomon Brothers. Analysts complain that yields on short-dated gilts have

been pushed up so much, and the yield curve has flattened to such an extent under the sheer weight of the Bank's own funding that it is no longer making any clear cost savings by issuing short-dated rather than long-dated bonds.

They also say that the Bank's policy adds to the uncertainty that an investor faces, which acts as a deterrent at the margin.

"Investors already have to predict inflation and interest rates. If on top of that they have to guess funding policy as well, they may just go and buy French bonds," said Mr Saunders. Last year banks, building societies and overseas investors were keen to buy short-dated gilts. But this year many of them have turned to fixed-rate mortgages, which in terms of exposure to long-term interest rates are similar to a short-dated bond. Yet despite the decline in demand, the Bank has persisted with its tactic of funding at the short end. Gilts, analysts say, are falling into a vacuum.

But officials say this type of



	UK	Germany	France	Japan
Discount	3.50	1.75	4.50	2.00
Overnight	2.00	1.50	2.50	1.75
Three month	4.25	2.00	3.00	2.25
One year	5.25	2.25	3.25	2.50
Five year	6.50	3.11	3.50	3.00
Ten year	7.12	3.72	3.75	3.25

	US\$	DM	£	Yen
Jan	105.47	105.01	105.01	105.01
Feb	104.47	104.47	104.47	104.47
Mar	104.47	104.47	104.47	104.47
Apr	104.47	104.47	104.47	104.47
May	104.47	104.47	104.47	104.47

International / Conner Middelmann

Political uncertainty plagues Spain

A spate of corruption scandals which cost several Spanish government officials their jobs and sparked fears of early elections recently sent Spanish government bonds plummeting. While Spanish politics are a mess, "the most we are talking about is an early general election, not the overhaul of the entire system," she adds.

However, it is precisely the uncertainty of a possible early election that could cast a dark shadow over Spain's bond market, warns Mr Giorgio Radella, senior economist at Lehman Brothers. Mr Felipe Gonzalez's government so far has survived the scandals, with the aid of its Catalan coalition partners. Their support would crumble if new revelations arose that could cause cabinet embarrassment and ministerial resignations, he says.

"Obviously, no one knows when and if that will be the case, but this very uncertainty argues for investor caution until the government is seen to be firmly back to the driving seat."

The optimum time for the Spanish government, featuring regional elections in Andalusia - traditionally a stronghold of Mr Gonzalez's socialist PSOE party - and European Parliament elections. While the PSOE is expected to win a majority in Andalusia, "a slim victory could be seen as a setback," says Mr José Luis Alzola,

For the first four months of the year, the government's cumulative deficit was Ptas98bn - about 20 per cent below the figure for the same period last year - boosted largely by a jump in tax revenue.

Meanwhile, inflation is at its lowest level in years. The core rate fell to 4.6 per cent in April from 4.9 per cent in March, and is expected to slow to around 4 per cent by year-end. Last week's approval of the government's labour market reforms will ease wage pressures permanently, further reducing long-term inflation expectations, Mr Alzola says.

Political problems notwithstanding, fundamentals are expected to lead the market longer-term support, and both Mr Alzola and Mr Radella at BZW expect the 10-year Bono spread over bonds to narrow towards 200 basis points by year-end.

Mr Radella, however, says long-term exposure to Spanish bonds should be avoided as long as political uncertainty prevails, warning that any more scandals could send the spread over bonds widening back beyond 300 basis points and the peseta tumbling.

The Kingdom of Spain on Friday issued Ptas6bn of 6½ per cent seven-year eurobonds, priced to yield 24 basis points over the corresponding French government bond. Lead manager was Crédit Lyonnais.

southern Europe economist at Salomon Brothers. Also, recent opinion polls have indicated a PSOE defeat in the European elections. All this could increase the risk of early general elections later this year, even though the current term expires only in 1997.

However, early elections could bolster market sentiment if the conservative Popular Party (PP) won. A PP-led government would likely emphasize spending restraint and privatisations, as well as fostering greater labour market flexibility and liberalising key services sectors, Mr Alzola says.

Politics aside, Spain's fundamentals of slowing inflation, continued fiscal consolidation and structural reforms warrant further gains in the bond market, many say.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount	Maturity	Coupon	Yield	Launch	Book cover
US DOLLARS						
Chia Hsin Cement Corp (Taiwan)	250	Jun 2002	6.50	6.60	6.75	S&P Bank
SEC Finance (Spain)	100	Jun 2002	6.50	6.50	7.00	S&P Bank
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Chia Hsin Cement Corp (Taiwan)	100	Jun 2002	6.50	6.50	7.00	S&P Bank
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Chia Hsin Cement Corp (Taiwan)	100	Jun 2002	6.50	6.50		

EQUITY MARKETS: This Week

NEW YORK

Frank McGurty

Bold strike on interest rates well received

Wall Street is looking forward to a week of quiet reflection, a welcome break from three months of anxious anticipation about rising interest rates.

It is ironic, perhaps, but equity investors, inherently concerned about tighter money, found reassurance in the Federal Reserve's aggressiveness last week. On Tuesday, the central bank decided to increase two key short-term rates by 50 basis points each.

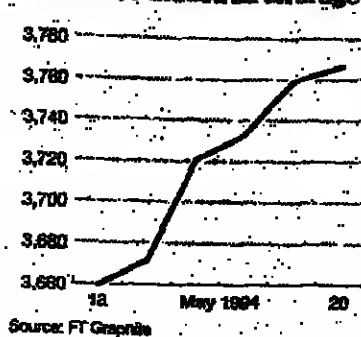
Gradualism, it seems, was not to the liking of a market which hates surprises. Instead of fostering a measure of predictability, the central bank's three previous increases in its Fed Funds target - at 25 basis points each - served to heighten concern about when the next move was coming.

Last week's bold strike - accompanied by a statement suggesting the Fed had achieved its goal of moving to a policy which would neither encourage nor discourage growth - gives stocks some breathing room. Most analysts expect share prices to hold fairly steady in the next few trading sessions, as the market digests a net gain of 107 points in the Dow Industrials on the week.

"The market is going to move sideways - without much direction - while waiting to assess the situation," says Peter Cardillo, head of research at Westfalia Investments in New York.

How stocks will perform after their pause is more controversial, however. Mr Cardillo sees the market waiting until next week's employment data before staging any push upward. But it is likely that the evidence will continue to point to low inflation, he says, supporting bond prices and

Dow Jones Industrial Average



Source: FT Graphix

"setting the stage for a strong summer rally that will take stocks to new highs".

While William Raftery, technical analyst at Smith Barney Shearson in New York, agrees that share prices will finish this week with little change, he is decidedly more bearish about the intermediate outlook. "Last week was a brief rally. Just as in a bull market there are pull-backs, in bear markets there are corrective cycles," he says. "They look nice for a week, but then they trip you up." Citing underlying technical conditions and historical trends, he argues that the Dow Jones Industrial Average is heading below the 3,400 level by late summer.

Mr Gregory Nie at Kemper Securities in Chicago, takes a more positive view but remains circumspect about a sustained upturn. Although the strong suggestion by the Fed that it had reached a neutral policy has coaxed many investors out of their foxholes, Mr Nie says there is still some danger of further rate rises in the near term. The continuing rise in commodity prices and the persistent weakness of the dollar could force yet another move to tighter money, despite expectations to the contrary.

He discounts the chances of stocks breaking out of their trading range on technical grounds. He says the market has moved into an "overbought" condition and cash reserves remain low.

LONDON

Terry Byland

Analysts still wary of Fed 'neutrality'

The response from UK stock market analysts to the Federal Reserve's eagerly anticipated rate rises sounded somewhat muted by the end of the week, particularly when contrasted with the applause which preceded the move.

Confident predictions that the Fed had set the stage for a rally in global bond markets which would set London stocks free to celebrate economic recovery are now carrying the health warning: "dollar permitting".

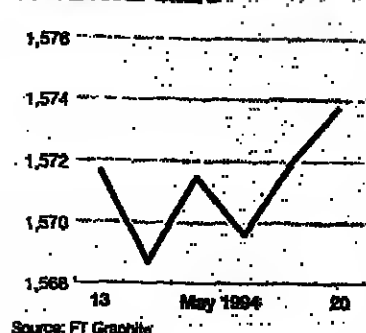
Mr Nicholas Knight of Nomura Research, who is still the most bearish of the UK analysts, has told clients bluntly that the US bond rally would not hold and that the dollar's failure was beginning "to look terminal". This scenario implies sharply higher US rates, he warns. London markets have shown themselves more readily influenced than continental European markets by developments in the US, and Mr Knight remains pessimistic about interest rate trends in the UK "and the impact of rising rates on equity prices".

Nikko Securities rejects the assumption that the Fed's statement implies that it has "achieved neutrality", and believes the Fed remains willing to raise rates further if need be.

The chances of the Footsie climbing convincingly away from 3,150 this week will depend on the progress of the bond markets, and of course, the dollar. But since the Fed is unlikely to move again so soon after last week's broadside, share prices can still respond to good news.

The broader market remains weak, however. The FT-SE Mid 250 Index has fallen almost 2 per cent this month, contrasting with an

FT-SE 100 All-Share



Source: FT Graphix

admittedly unimpressive 0.3 per cent gain in the FT-SE 100 index.

Nervousness ahead of the German money supply figures may prove a distraction for the UK market. There are plenty of healthy company results in the pipeline, with building industry groups likely to show the beneficial effects of the slide in UK interest rates over the past 12 months.

The oil share sector continues to have a significant impact on market trends, if only because of the international stance of the blue chip stocks and the background of global crude oil prices.

Indeed, oil prices are probably the most significant factor in the Enterprise/Lasmo bid situation. But excellent first-quarter results from BP and some US majors should not overshadow the impact of the 24 per cent rise in oil prices since the end of March.

The NatWest Securities oil team believes the market may now have seen the largest part of the oil price recovery and while some further increase is likely, emphasis may now shift to such other factors as the squeeze on downstream margins.

NatWest says that BP, notwithstanding its recent outperformance of around 22 per cent to the market, remains 15 to 20 per cent below its relative standing to Shell in the late 1980s. The unexpected increased BP dividend will emphasise the pressure to switch from Shell into BP.

OTHER MARKETS

ZURICH

Holderbank holds its press conference and analysts' meeting on Wednesday at which a breakdown of 1993 results, and projections for 1994 will be given. A raft of annual meetings is scheduled for the week, beginning with Oerlikon-Bührle tomorrow, with Ascom, Nestlé and Rieter on Thursday and Forbo on Friday. A CS Holding roadshow will be in Edinburgh on Wednesday and in Frankfurt on Friday. The Swiss bank has expressed an interest in buying a 20 to 30 per cent stake in Austria's Creditanstalt-Bankverein with an option to take control later.

FRANKFURT

Among a range of economic data due this week are April M3, which Nomura forecasts to rise by an annualised 13.5 per cent, and preliminary cost of living figures. The Bundesbank meets on Thursday but no move on rates is expected after the half-point cuts in the discount and Lombard rates last time. James Capel does, however, expect another reduction before the bank's summer recess, which begins after the July 21 meeting. Full-year figures come from Kaufhof, the retailer, and Viag on Wednesday. In March, Viag paid DM2.3bn in cash, plus a minority blocking stake of 25.1 per cent in the enlarged Viag group, to take full control of Bayernwerk, Bavaria's state-owned electricity utility, in a deal described as Germany's biggest privatisation to date.

AMSTERDAM

Nedflloyd publishes 1994 first-quarter figures on Thursday. Hoare Govett says that the operating results before extraordinary items are known to show a loss of £1.5m for shipping, profits of £1.8m for European transport and £1.8m for other activities. Over the year, the broker expects a strong improvement from the shipping side while the transport and other activities could be down. Overall, operating profit and net profit should be up substantially and Hoare Govett is forecasting earnings per share of £1.535 for the current year and £1.890 for 1995.

TOKYO

Investors are continuing to focus on the currency market after confidence improved last week, as domestic institutions gradually moved back into the equity market. However, many investors are still wary over selling with the Nikkei index standing between 20,500 and 21,000, and the upside is expected to be limited.

RISK AND REWARD

Globex highlights race for lucrative after-hours trade



The latest episode in the Globex saga has highlighted the strong belief among the world's leading futures exchanges that there is demand for, and money to be made in, after-hours trading.

The million-dollar question is whether Globex will be able to secure a significant slice of this potentially lucrative market or find itself squeezed out by more nimble competitors.

Although Globex was dealt a humiliating blow last week by Liffe, London's financial futures and options exchange, when it decided against joining the system because of the restrictive terms which Globex had laid down, its future brightened considerably a few days later when DTB, Frankfurt's financial futures and options exchange, said it intended to join the system.

DTB is the third exchange to join Globex, the electronic futures trading system developed and operated by Reuters, the financial information and news group, along with the Chicago Mercantile Exchange and Matif, the French futures exchange.

"The future of Globex has cleared up a lot," says a spokeswoman at Matif. "There was no clear commitment before, but now there is."

Now that the uncertainty hanging over the system has been dispelled and its configuration has been clarified, one would expect Globex to speed up DTB's entry into the system. But DTB still needs to sign a contractual agreement with Globex, which could take weeks, and then it could take up to a year for its products to be listed on the system.

This lack of urgency on Globex's part could play directly into the hands of other exchanges which are considering alternative after-hours electronic trading systems.

The Chicago Board of Trade (CBOT), which pulled out of Globex last month, expects its

"Project A" electronic trading system to start in August. Mr Patrick Arbor, CBOT chairman, says the initial aim of Project A is to operate in the afternoon after the exchange's morning open-outcry session has ended and before the evening session starts. The system is scheduled to start operating through the night by the autumn.

CBOT also has an agreement in principle with Bloomberg Financial Services which would give users with Bloomberg terminals access to its products. Since this is a non-exclusive pact, CBOT is free to find other potential distributors of its products.

There are also indications that CBOT and Liffe, which already have a close relationship and similar business strategies, are exploring ways to work together. The chairmen of the two exchanges are due to meet later this week.

Mr Daniel Hodson, Liffe chief executive, does not rule out linkages of some kind between the two exchanges, such as fungible links between identical contracts. "All these exciting projects would have been off-limits had we joined Globex," says Mr Hodson.

Mr Nick Durlacher, Liffe chairman, said last week that Liffe's after-pit trading could easily be extended by two hours, thus taking it to the end of the Chicago morning trading session of 2pm Chicago time. Liffe may also extend its network overseas, following the successful installation of its screens in New York.

Mr Hodson says that while these steps would not pose a problem on the technological front, they could be held up by considerations such as market supervision and the impact on the London Clearing House. "But these hurdles are not insuperable," he says.

But the Matif spokeswoman says that the links established between three of the world's most important exchanges and their combined political will should ensure a successful future for Globex.

Antonia Sharpe

INDICES AT A GLANCE	Closing price	Percentage change		12-month	High	Low	1994	Low
		Over week	On 12 months					
FT-SE 100	3,127.30	+0.3	+11.0	+8.5	3,520.30	2,812.20	21/5/93	3,520.30
Dow Jones Ind.	3,766.35	+2.9	+6.9	+8.3	3,978.36	3,111.94	6/7/93	3,978.36
Nikkei	20,342.17	+0.4	+8.1	+15.8	21,148.11	13,939.83	29/11/93	20,677.77
Dax	2,249.65	-0.4	+39.1	-0.8	2,271.11	1,603.04	24/5/93	2,271.11
CAC 40	2,155.43	-0.4	+17.4	-5.2	2,355.98	1,836.78	20/5/93	2,355.93
Banca Com. Ital.	776.45	-4.0	+38.9	+25.3	817.17	508.01	18/6/93	817.17

Source: FT Graphix

INVESTOR AB

THREE MONTH INTERIM REPORT 1994

INVESTOR GROUP INCLUDING SAAB-SCANIA

Investor's net worth, with Saab-Scania at book value, on March 31 amounted to SEK 36,056 m. (Dec. 31, 1993: SEK 37,493 m.), or SEK 198 (206) per share. On May 17, its net worth amounted to SEK 38,218 m., or SEK 210 per share.

The value of Investor's portfolio of strategic holdings on March 31 was SEK 26,408 m. (Dec. 31, 1993: SEK 27,964 m.), a decrease of 5 % from the beginning of the year. On May 17, its value was SEK 28,570 m., an increase of 2 % from the beginning of the year.

The Investor Group's income after financial items amounted to SEK 222 m. against a corresponding loss of SEK 559 m. in the first quarter of 1993.

The Group's net debt on March 31 amounted to SEK 5,194 m. (Dec. 31, 1993: SEK 4,850 m.)

SAAB-SCANIA

Saab-Scania's order bookings rose by 49% compared with the first quarter of 1993.

Saab-Scania's sales during the period amounted to SEK 6,700 (5,600) m.

Saab-Scania's operating income after depreciation amounted to SEK 561 m. against a year-earlier loss of SEK 21 m. Income after financial items amounted to SEK 448 (-109) m.

In 1994, a continued improvement in the income trend is expected for Saab-Scania.

SEK 46,989 m. with Saab-Scania at an EBIT value, or SEK 258 per share.

This is a summary of Investor's three month interim report 1994. The complete report can be obtained from Investor AB, S-103 32 Stockholm, Sweden, telephone +46-8-614 20 00.

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December 1993

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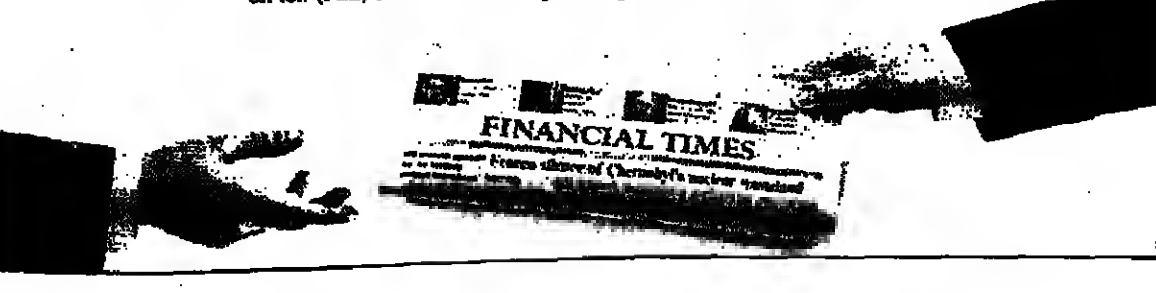
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FT GUIDE TO THE WEEK

23

MONDAY

Germany elects president



The federal assembly, composed half of members of the federal parliament (the Bundestag) and half of deputies from the 12 state parliaments (Landtage) convenes in Berlin to choose Germany's next state president. The quest for a successor to the distinguished Richard von Weizsäcker (above) looks set to go through three full rounds of voting.

Roman Herzog, president of the constitutional court, is Chancellor Kohl's choice, and the man most likely to succeed. But Johannes Rau, the Social Democrats' nominee, is the popular choice, and could yet give him a run for his money.

Nigerian democracy: Local polling begins in Nigeria to elect 270 delegates to the national constitutional conference, due on June 27.

Campaigners for democracy have denounced the conference as a sham, as a ban on all political parties and associations is in force until 1996. Large parts of southern Nigeria are expected to boycott the polls and the conference.

UK economy: The deficit with non-European Union countries is expected to have widened slightly to £70bn in April, from £67.5bn in March.

While the UK's trade deficit has been broadly stable in money terms over the past few months, the trend of import and export volumes has deteriorated. Some analysts see that as a worrying sign, although doubts remain over the accuracy of the figures, particularly the price/volume split.

Crimea: Victor Chornomyrdin, the Russian prime minister, meets Ukrainian counterpart, Yefim Zvyagilsky, in Moscow to discuss the worsening situation in Crimea. The Crimean parliament voted on Friday for virtual independence from Ukraine.

Douglas Hurd, UK foreign secretary, is also in Moscow to meet Mr Chornomyrdin and Russian president Boris Yeltsin.

Romania: Issues a 10,000 lei (US\$6) banknote after three years of triple digit inflation. Before the end of communism in 1989, the largest denomination banknote was 100 lei.

Tennis: The French Open begins at Stade Roland Garros in Paris (to June 5).

Holidays: Austria, Belgium, Denmark, France, Germany, Hungary, Luxembourg, Netherlands, Norway, Sweden, Switzerland (White Monday), Canada (Victoria Day), Egypt, Jordan, Kuwait, Pakistan, Saudi Arabia, Syria, (Eid al-Adha), Morocco and Turkey.

24

TUESDAY

Russia outlines Nato policy

General Pavel Grachev, Russia's defence minister, visits Nato headquarters in Brussels. He will give a speech which is expected to present Russia's new military doctrine and lay out the terms on which his country wants to co-operate with Nato in such areas as peace-keeping and the exchange of know-how.

Baltic Council: foreign ministers gather for a two-day meeting in the Estonian capital, Tallinn. Worsening relations between Estonia and Russia will be on the agenda. The ministers will also discuss joint initiatives including the so-called "Eurofaculty", the Riga-based university specialising in law and economics, and the Via Baltica motorway to link Helsinki and Warsaw.

The Council, set up in 1992, includes Germany, Denmark, Sweden, Finland, Norway, Poland, Russia, Lithuania, Latvia, Estonia and the European Commission.

South African president: Nelson Mandela makes a state of the nation speech to a joint session of the two houses in the new all-race parliament. Following a cabinet meeting on Monday he is due to set out plans for spending on reconstruction and development.

EU frauds: Jo Carey, a former official in the UK Treasury who worked for nine years at European Court of Auditors, the EU's financial watchdog, is quizzed at Westminster by the House of Lords European Affairs Committee on the extent of EU fraud.

UK competitiveness: Plans to privatise the Civil Aviation Authority's air traffic control services are expected to feature in a government white paper on competitiveness out today.

BBC strikes: A series of twice-weekly strikes by journalists and technicians starting today could hit the programmes of both BBC World Service Radio and World Service Television as well as live programmes in the UK. The stoppages could last for 24 hours - or 10 minutes.

The immediate cause of the dispute is plans for performance-related pay and for different rates of overtime pay and allowances in different parts of the Corporation.

Chelsea Flower Show: The Royal Horticultural Society's annual bash opens to members, after a royal gala opening on Monday. Open to non-members from Thursday. It finishes on Friday.



Holidays: Ecuador (Independence Day), Jordan, Pakistan, Saudi Arabia, Syria (Eid al-Adha), Thailand, Turkey.

25

WEDNESDAY

Greenspan on derivatives

Alan Greenspan, chairman of the US Federal Reserve, and Arthur Levitt, chairman of the Securities and Exchange Commission, today give evidence to a Congressional hearing about the impact of derivatives on financial markets.

Last week, regulation of derivatives (financial instruments such as swaps and options) was criticised in a report to Congress from the General Accounting Office. The report said that inadequate regulation posed a threat to the US and international financial system.

Argentina's constituent assembly: convenes to begin rewriting the country's constitution. The main aim is to lift the 1983 constitution's ban on successive presidential terms, allowing President Carlos Menem (below) to stand for re-election next year.



An agreement that Mr Menem's Peronist party signed with ex-president Raúl Alfonsín's opposition Radical party last December ensures that this and other reforms

strengthening the legislature and judiciary will be passed by a big majority.

Energy ministers: from the European Union meet in Brussels to discuss the direction of energy policy. They will discuss energy liberalisation and the introduction of competition into the supply of electricity.

Nato defence ministers: consider the future of the alliance against a background of uncertainty over its post-cold war role. There are differences over Nato's role in Bosnia, and over how far it should go in extending security guarantees to former members of the Warsaw Pact.

Labour's National Executive Committee: meets in London to decide the timing of the leadership contest following the death of John Smith.

The Tokyo Stock Exchange: holds a general meeting to elect Mitsubishi Yamaguchi, ex-president of the Export-Import Bank of Japan as president.

UK National Lottery: The winner of the contest to run a lottery that could have revenues of £3bn-£4bn within the next few years will be announced. Bids were accepted from eight consortia for the private sector lottery, designed to raise money for the arts, charities, a millennium fund, the national heritage and sport.

FT Surveys: Ireland and Tennessee.

Holidays: India (Bombay only), Indonesia, Jordan (Independence Day), Malaysia, Saudi Arabia, Singapore, Sri Lanka, Zimbabwe.

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THURSDAY

Quest for a stable Europe

Foreign ministers from most European countries, the US and Russia are expected in Paris for the formal opening by France's prime minister Edouard Balladur of "the conference on European stability" (to May 27). Mr Balladur proposed the idea a year ago as a means of trying to prevent a second "Yugoslavia" in other parts of central and eastern Europe. The aim of the conference, chaired by the EU presidency, is for countries to reach accords of "good neighbourliness", settling frontier and minority differences.

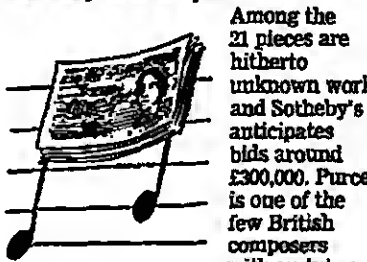
Fins into Europe: Two decisions affecting Finland's hopes of joining the EU next January will be taken today. The government will set a date for a referendum on EU membership, and decide on how to compensate the country's agriculture and food industries for adjusting to EU price levels.

The poll is likely to be in October before similar votes in Sweden and Norway. This would secure the voting sequence seen as the best way of bringing all three Nordic states into the EU. Support for membership is strongest in Finland and weakest in Norway.

Russia's foreign minister: Victor Chornomyrdin begins a trip to Beijing (to May 29) to discuss trade and security issues, including North Korea's reluctance to allow international inspections of its nuclear facilities.

The Bundesbank council's last meeting, on May 11, saw a cut of half a percentage point in the key Lombard and discount rates, to 4.5 and 6 per cent respectively. As a result, traders are not expecting today's meeting to lead to a rate change, especially after Hans Tietmeyer, the Bundesbank president, said last week that "as far as central bank interest rates are concerned, the horizon has now been cleared for a fairly long time".

Saleroom: Sotheby's auction of musical manuscripts contains a great rarity: a small calf bound volume containing the only keyboard music surviving in the hand of Henry Purcell, the late 17th century English composer. Found last year in another auction house in a bundle of music, it is considered to be the greatest British musical discovery of recent years.



Among the 21 pieces are hitherto unknown works and Sotheby's anticipates bids around £300,000. Purcell is one of the few British composers with an international reputation, and attributed music of this early date is extremely rare.

FT Surveys: International Capital Markets and Brazil.



No entry: a UK bill to ban discrimination against the disabled failed to pass through parliament on Friday

27

FRIDAY

Solzhenitsyn returns home

Alexander Solzhenitsyn, Russia's greatest living writer, returns home after 20 years in exile.

The 75-year-old Nobel laureate will fly to Vladivostok from Alaska and then travel across Russia to re-acquaint himself with his homeland.

Fed chairman: Alan Greenspan testifies on monetary policy before a Congressional hearing.

The same morning the US Commerce Department releases preliminary GDP figures for the first quarter. Little change is expected from its initial estimates of 2.4 per cent.

The Kaidanoren: Japan's Federation of Economic Organisations, holds a general meeting to elect Shoichiro Toyoda, chairman of Toyota, as its new chairman.

Bath Music festival: begins (to June 12). The theme "Ancient Echoes" links modern music with music of the past. Henryk Gorecki and Michael Nyman are the featured 20th-century composers.

FT Surveys: Relocation in the UK.

Holidays: Sri Lanka.

28-29

WEEKEND

Hungary goes to the polls

The second and decisive round of Hungary's parliamentary elections takes place on Sunday. The Hungarian Socialist Party, successor to the communist regime, took a commanding lead to the first round and is poised to win an absolute majority.

Colombians vote: in the first round of presidential elections on Sunday. If no candidate wins a majority, there will be a run-off on June 19. Opinion polls put the Liberal Ernesto Samper and the Conservative Andres Pastrana very close, with the other candidates trailing far behind.

Glyndebourne Opera House: near Lewes in Sussex, re-opens on Saturday in its new £35m auditorium with a performance of Mozart's *Le Nozze di Figaro*, the opera with which it was launched 60 years ago.

Motor racing: The Spanish Grand Prix takes place in Barcelona, while the Indianapolis 500, part of the IndyCar World Series, is run in Indianapolis, Indiana.

Compiled by Patrick Stiles and Ian Holdsworth. Fax: (+44) (0)71 873 3194.

ECONOMIC DIARY

Other economic news

Wednesday: The governor of the Bank of England, Eddie George, gives evidence on the Bank and the UK economy to the Treasury select committee. UK gross domestic product figures are expected to confirm an earlier estimate that the economy grew by 0.7 per cent in the first quarter.

The National Institute of Economic and Social Research publishes its latest economic forecast. Friday: The Confederation of British Industry's monthly industrial trends survey will provide further evidence of the strength of the UK recovery. One key indicator will be domestic orders, which may have been affected by April's tax increases, but analysts will also scrutinise the balance of companies which intend to raise prices. Previous surveys have shown little sign of inflationary pressure.

Japanese inflation has been phenomenally low for some time, but Morgan Grenfell is expecting the Tokyo May data to disappoint, with the annual rate moving up to 1.2 per cent. The market consensus, however, is 0.8 per cent, both for the May Tokyo figure and for the April whole nation inflation rate.

Statistics to be released this week

Day	Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	UK	Non EU trade bal April	-£700m	-£675m	
May 23	Italy	CPI Cities**	4%	4%	
Wed	US	Apr durable goods orders	1%	0.8%	
May 25	US	Apr durable goods shipments	-	0.7%	
	US	Apr existing homes sales	-	\$4,08m	
	Fr	Apr household construction*	0.5%	0.7%	
	UK	Mar GDP revised**	0.8%	0.8%	
	Aus	Priv cap expenditure (Q1)	3%	3%	
Thur	US	Initial claims w/e May 21	-	367,000	
May 26	US	State benefits w/e May 14	-	2.7m	
	US	M1 w/e May 16	-	\$3.8bn	
	US	M2 w/e May 16	-	\$6.7bn	
	US	M3 w/e May 16	-	\$2.1tn	
	Jap	Mar cons spending**	-	-0.5%	
	Jap	Mar workers' spending**	-	-1.8%	
	Jap	Mar workers' income	-	-1.1%	
Fri	US	Q1 GDP preliminary	2.5%	2.6%	
May 27	US	Q1 post-tax profits	-	7.9%	
	US	May Michigan	-	91.5	
	US	Apr exp price index	-	0.2%	
	US	Apr imp price index	-	0.0%	
	Jap	May CPI - Tokyo**	0.6%	0.8%	
	Jap	Apr CPI - national**	0.6%	1.3%	
	Jap	Apr retail sales	-2.2%	-3%	
	Can	Apr ind prod price index	0.5%	0.4%	

*month on month, **year on year

Statistics, courtesy IHS International.

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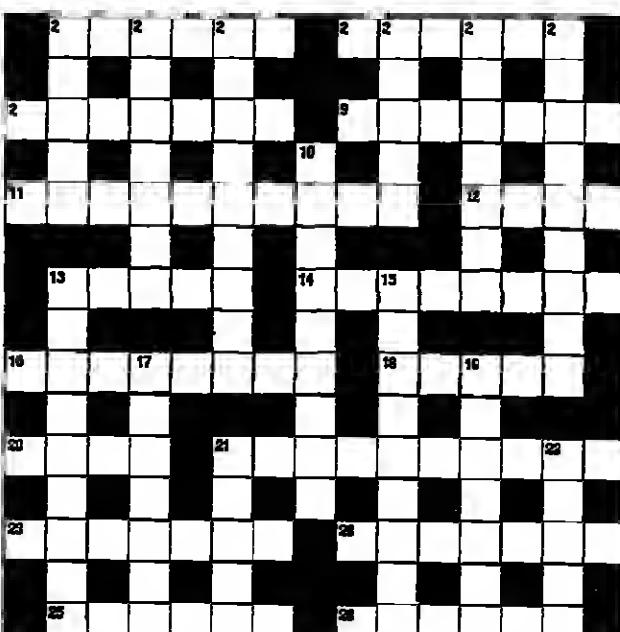
Of broking and jolting the Pelikan's fond. See how sweetly he puts your word onto bond.

Pelikan

JOTTER PAD

- ACROSS**
- Order about a quarter after last month (6)
 - Standing order (6)
 - Returned books to teacher (taking dinner's order?) (7)
 - Order book (7)
 - Order uniform - it's needed by July 4th (10)
 - Result of putting notes in order? (4)
 - Order to cricketers to continue supplying staff? (9)
 - May result in an incorrect order in writing (8)
 - It's usually suspended, always in date order (8)
 - Order from magistrates may find you here? (5)
 - Order cordial? (4)
 - Order which made Terry faint, perhaps (10)
 - Team needs vehicle - order it from the bar (7)
 - They order him to "go to blazes" (7)
 - Order Sally to stop everyone leaving (6)
 - Business order prepared before the meeting? (6)

- DOWN**
- Push right inside a seedy club (5)
 - Leading commentator right to quote ruined game (7)
 - Coach and first eleven in scrap when going by rail (9)
 - Small people drive off from here to New York (5)
 - Plays with present - a top toy inside (7)
 - Skill housed in fifty places for a time (9)
 - Which protects people from unpleasant blows? (8)
 - See if a bit off gladden? (9)
 - Hiding underground gets in before midnight (9)
 - The Farolan sends bust round, unbroken (7)
 - Sailors left advance payment on top of light case (7)
 - Behind R.F. mess is Griffin's skeleton (6)
 - A regiment takes it up with a crown (5)



MONDAY PRIZE CROSSWORD

No. 8,460 Set by GRIFFIN

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £25 Pelikan vouchers will be awarded. Solutions by Thursday June 2, marked Monday Crossword 8,460 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9PL. Solution on Monday June 6.

Name: _____ Address: _____

Winners 8,448

P. Bush, Saffron Walden, Essex
M. Britten, London W2
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B.R. Lawrence, Frettenham, Norfolk
Mrs J.A. Nock, Quinton, Birmingham
D. Parsons, Cyncoed, Cardiff

Solution 8,448

ELIGHTEN AFFIRM
N H E O U I A
A G A N T M U S T O C K E
N B H E U I D
E X P R E S S O K N O W E
L S R Y P L O A
H S O R O O G I C H
E N G O U A G E D
S A N N C O C F
R E N E G E L A B O U R E
I T A S C I A M I
D I N I N G S T A N D I N G
E R O O U I N I
S C R A W L R E V E R S E D